



TRADE & SUPPLY CHAIN FINANCE PROGRAM

Making global trade and supply chains **inclusive**, **green**,
resilient, **transparent**, and **socially responsible**.

DAY 1: 22 March 2023

Workshop on Traditional Trade Finance Products



22-23 MARCH 2023



**HYATT REGENCY,
PHNOM PENH, CAMBODIA**

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EVENT INTRODUCTION

Jyotsana Varma
Cambodia Country Director, ADB

SESSION # 1

OVERVIEW OF TRADE AND SUPPLY CHAIN FINANCE PROGRAM

Roberto Leva

Investment Specialist, ADB TSCFP

Trade and Supply Chain Finance Program

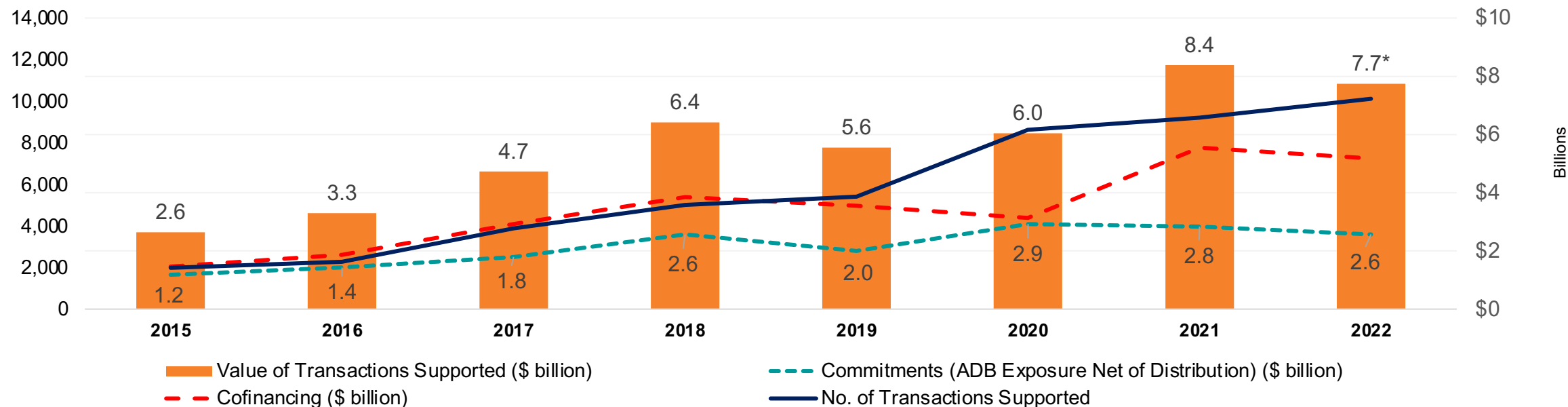
The UN Addis Ababa Declaration underlines how trade and supply chain finance help achieving Sustainable Development Goals by:

- Reducing the global trade gap, currently estimated at \$1.7 Trillion by the “2021 Trade Finance Gaps, Growth, and Job Surveys”*;
- Supporting SMEs and midcap firms (represent 40% of rejected transactions); and
- Promoting Women-owned firms (70% of applications totally or partially rejected)



* www.adb.org/publications/2021-trade-finance-gaps-growth-jobs-survey

TSCFP Growth (2015-2022)



Value of Transactions

No. of Transactions

Cofinancing

SMEs supported

Intra-regional Trade

DMC to DMC¹ Trade

2022

\$7.7B*

2015-2022
\$44.8B

2022

10,115

2015-2022
46,500

2022

\$5.2 B

2015-2022
\$27.5B

2022

6,300

2015-2022
27,400

2022

5,700

2015-2022
29,900

2022

2,600

2015-2022
11,000

¹ Developing Member Country (DMC) in ADB refers to a country that is eligible to receive financial and technical assistance from the bank.

SESSION # 2

OVERVIEW OF CAMBODIA ECONOMY AND THE POTENTIAL OF TRADE

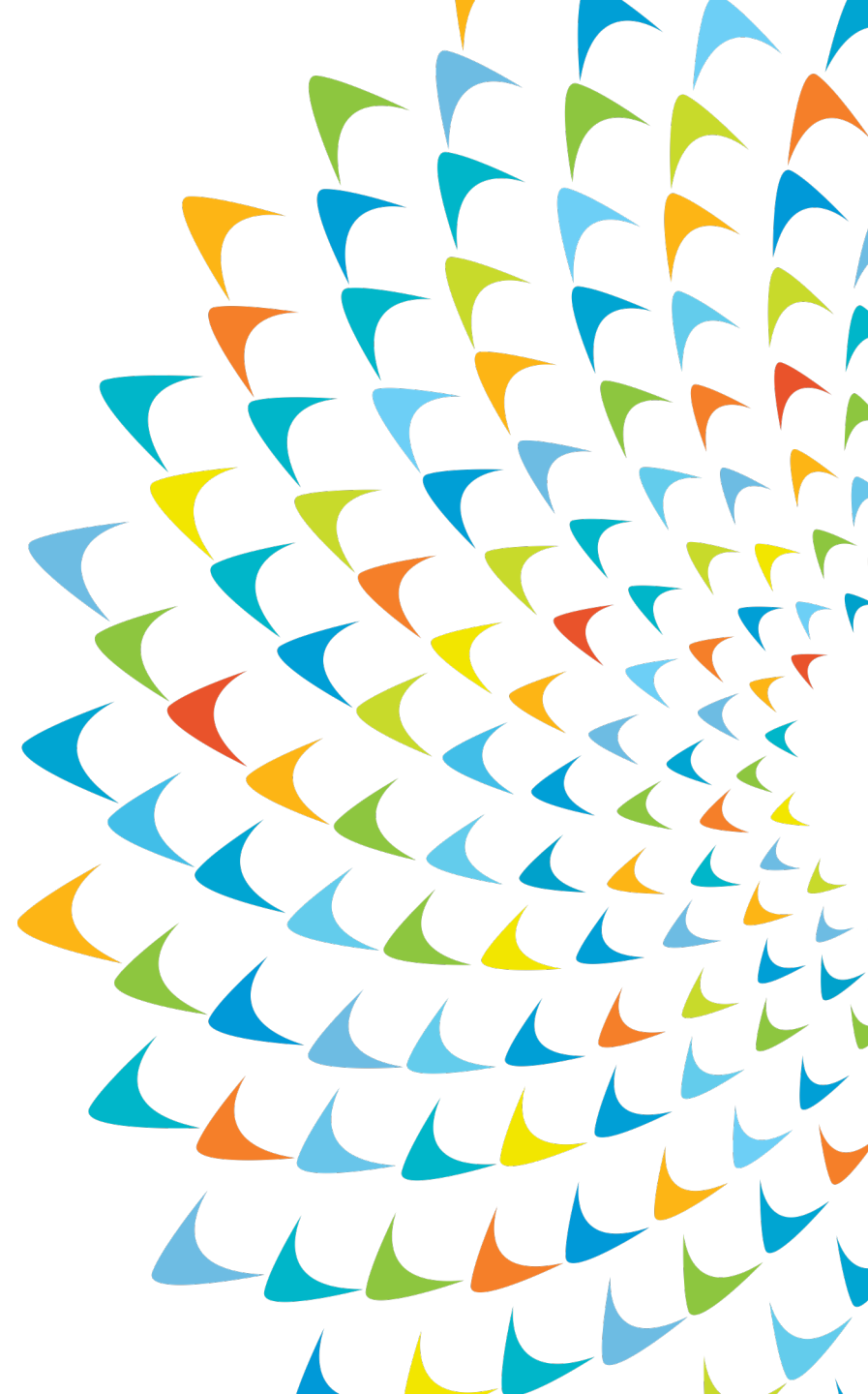
Poullang Doung
Senior Economics Officer, ADB



Overview of Cambodia's Economy and Importance of Trade

Poullang DOUNG, Sr. Economics Officer
ADB-Cambodia Resident Mission

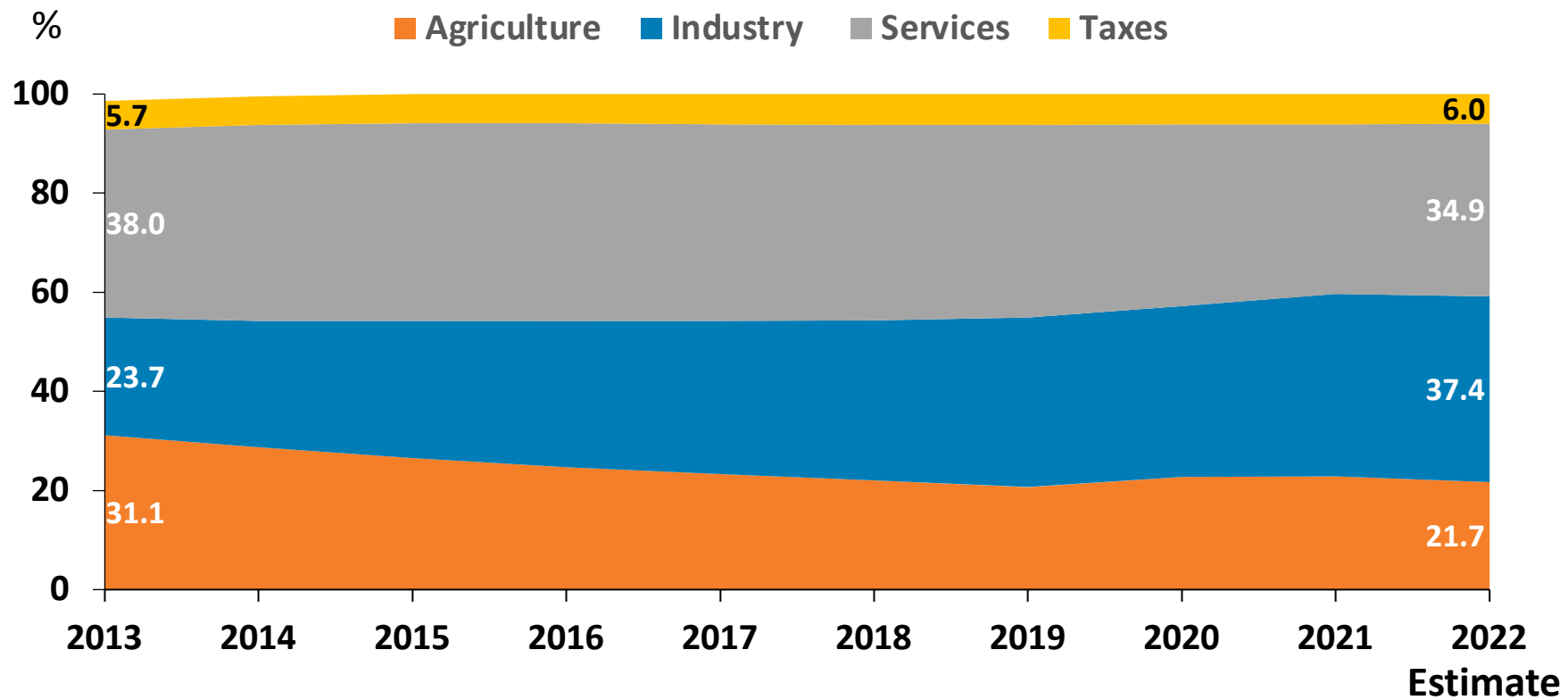
Workshop on Traditional Trade
Hyatt Regency Hotel
22 March 2023





Composition of Cambodian economy

As the economy develops, industry has gained more share over the last decade.

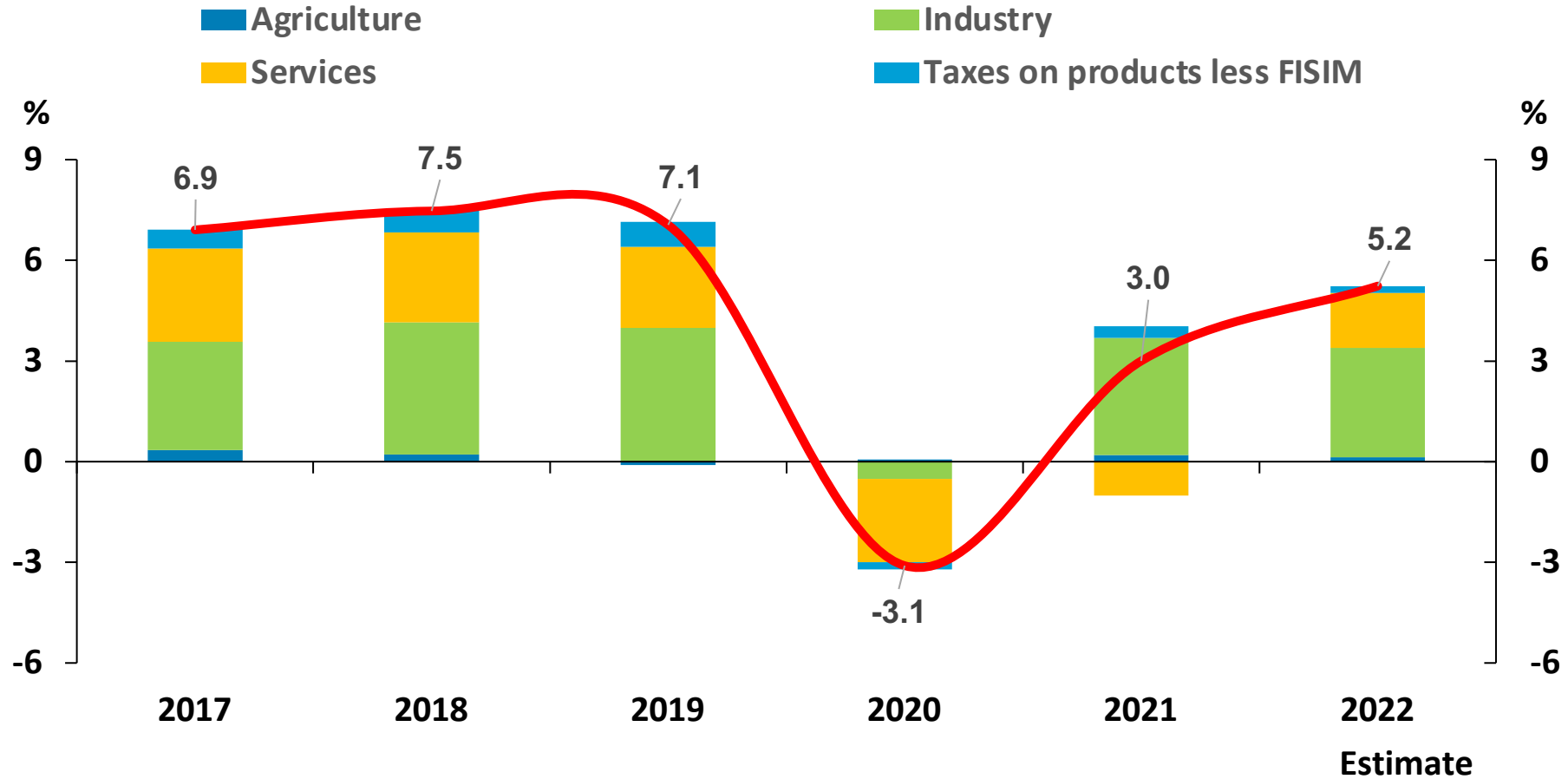


Sources: National Institute of Statistics; Ministry of Economy and Finance; Asian Development Bank estimates.



Economic performance

Growth has been robust until the pandemic hit.

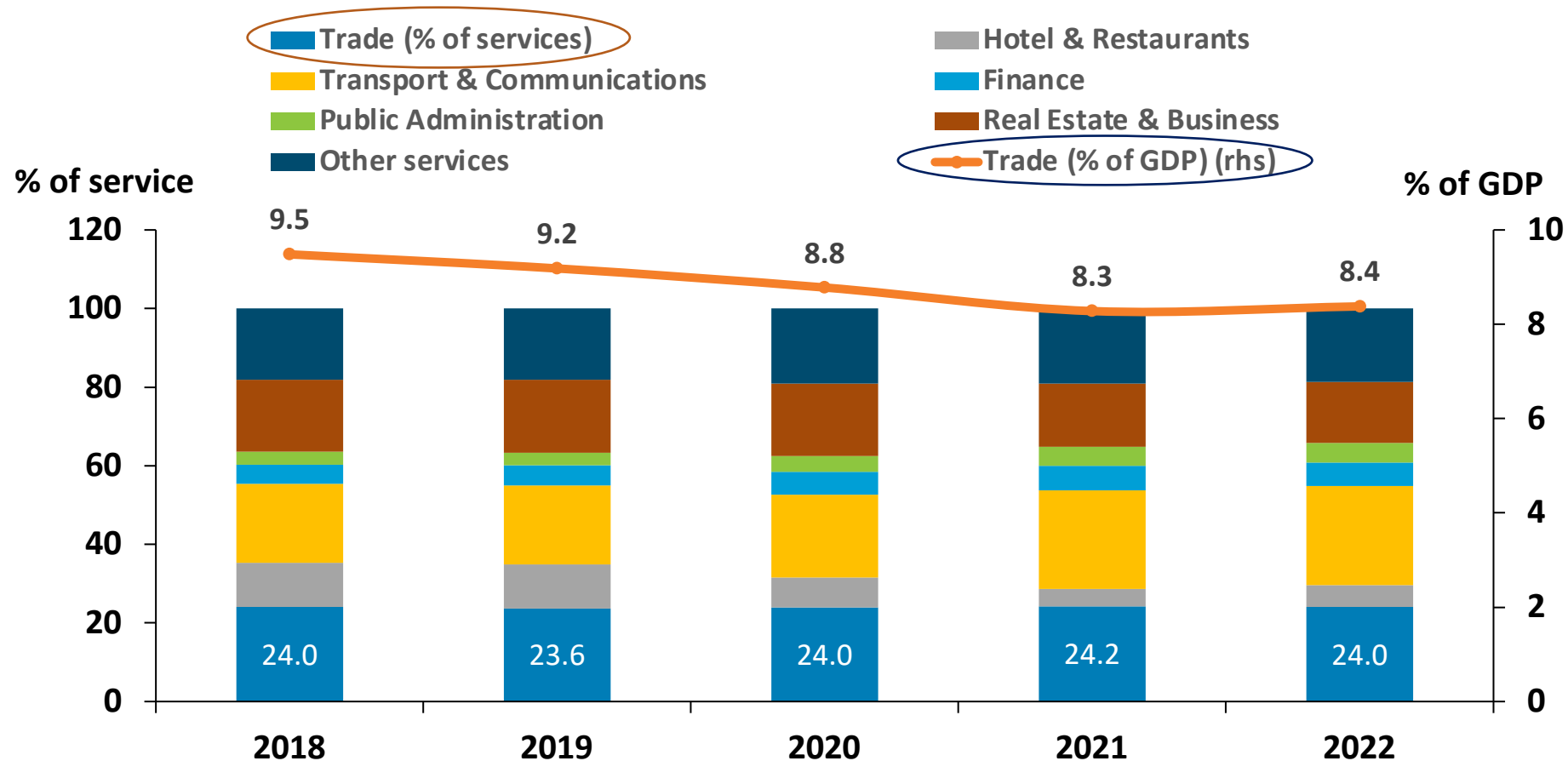


Sources: National Institute of Statistics; Ministry of Economy and Finance; Asian Development Bank estimates.
FISIM = Financial intermediation services indirectly measured.



Importance of domestic trade

Trade has been one of the largest service subsectors and a key driver of growth.

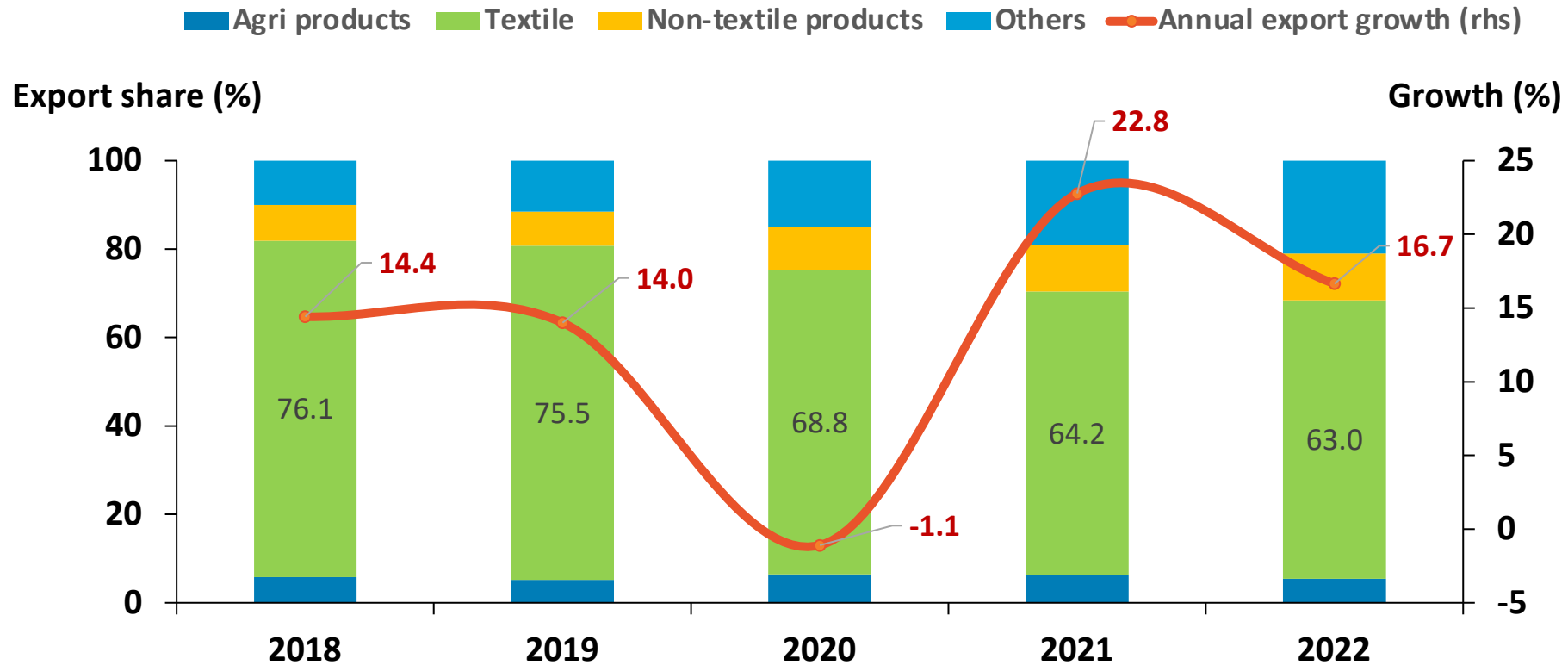


Sources: National Institute of Statistics; Ministry of Economy and Finance; Asian Development Bank estimates.



Importance of international trade (1)

Supporting export activities is beneficial to the economy.

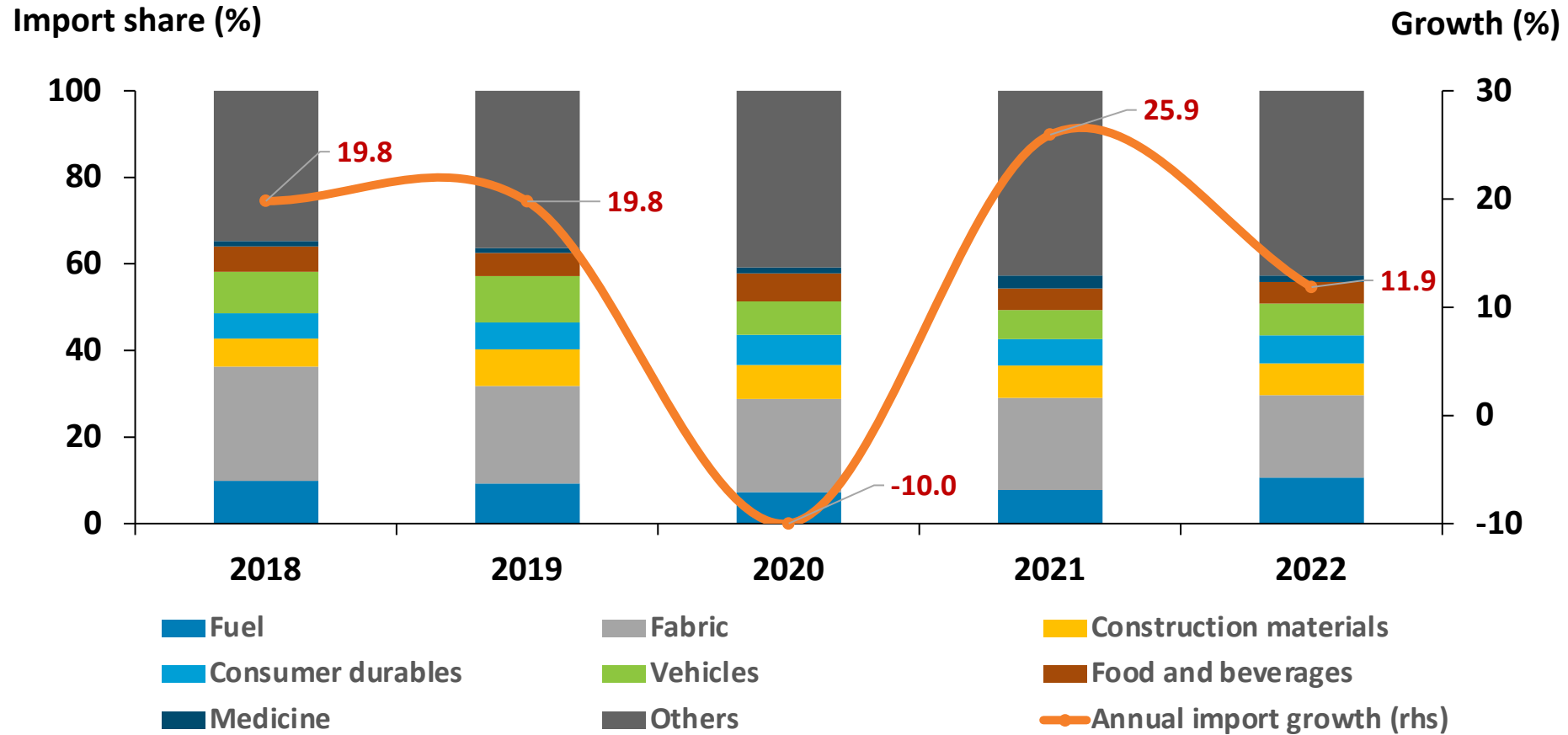


Sources: Ministry of Economy and Finance; Asian Development Bank staff calculations.



Importance of international trade (2)

...and similarly, supporting import activities is also beneficial to the economy.



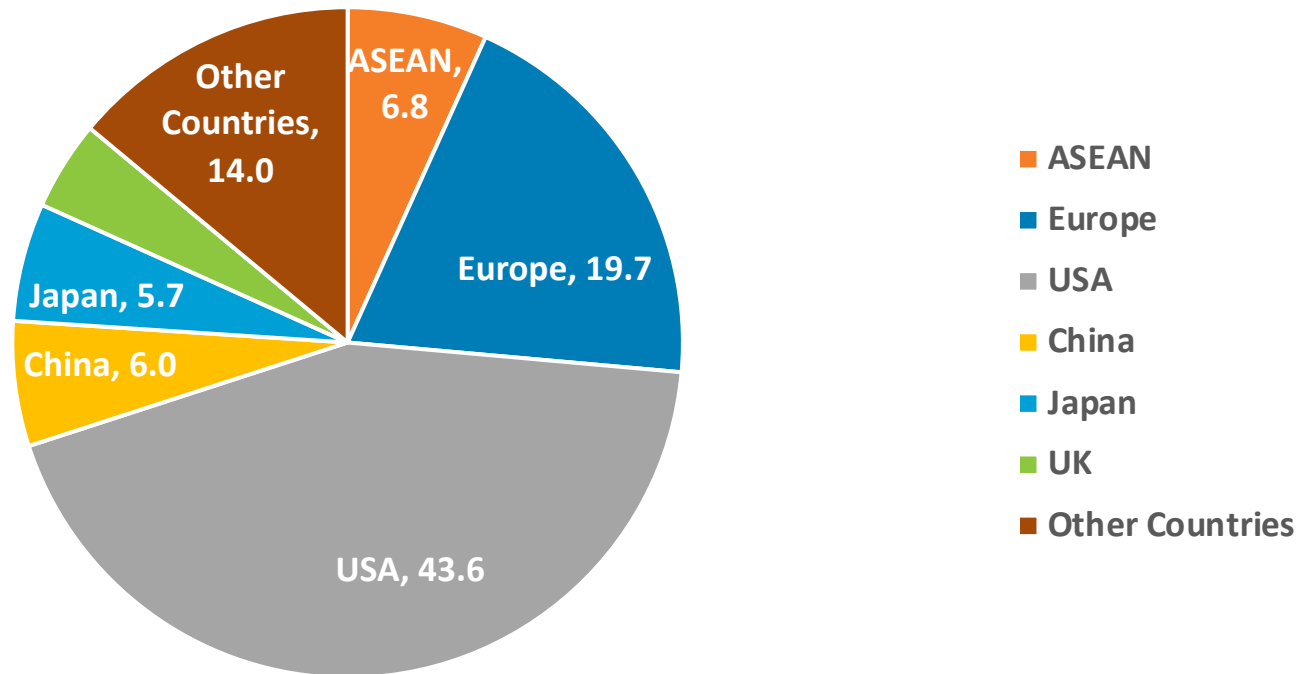
Sources: Ministry of Economy and Finance; Asian Development Bank staff calculations.



Cambodia's trading partners (1)

The US remained the largest export market, followed by the EU and China.

Export destinations, 2022 (%)



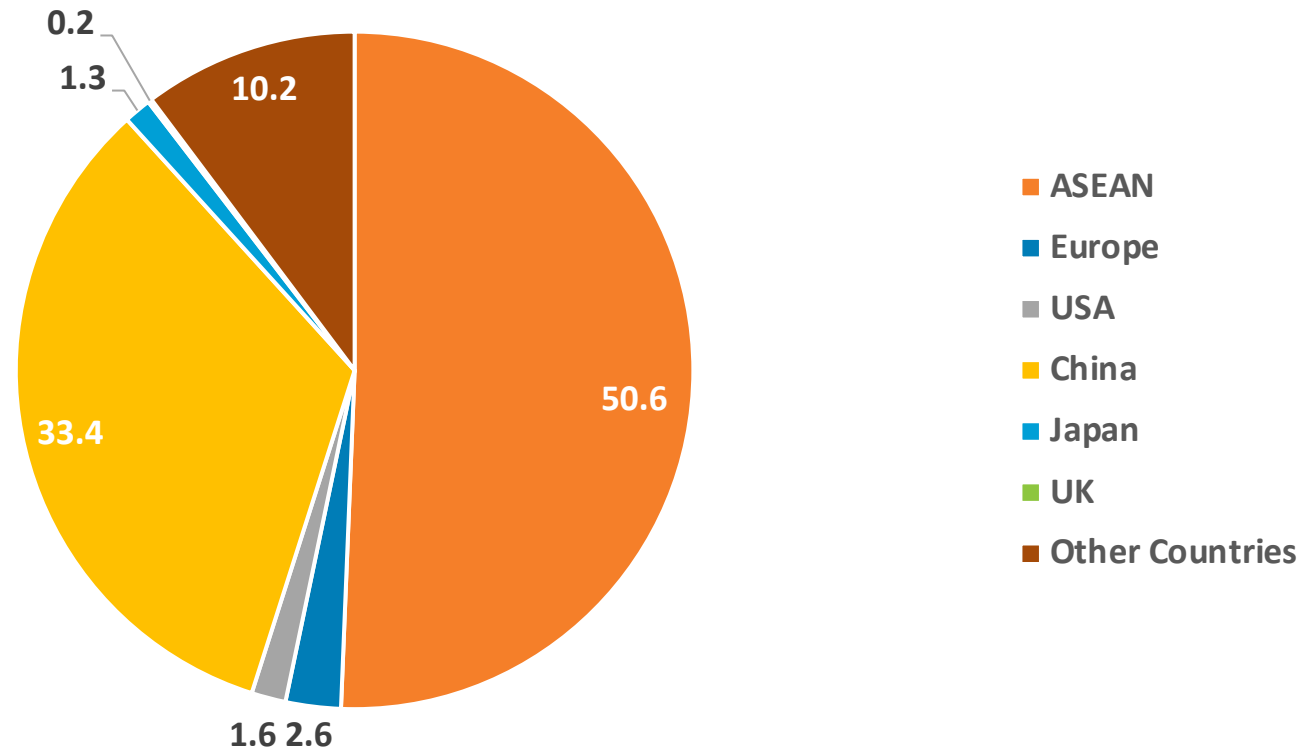
Sources: Ministry of Economy and Finance; Asian Development Bank staff calculations.



Cambodia's trading partners (2)

Cambodia imported the most from ASEAN (SGP, THA, VNM) and China.

Import sources, 2022 (%)



Sources: Ministry of Economy and Finance; Asian Development Bank staff calculations.

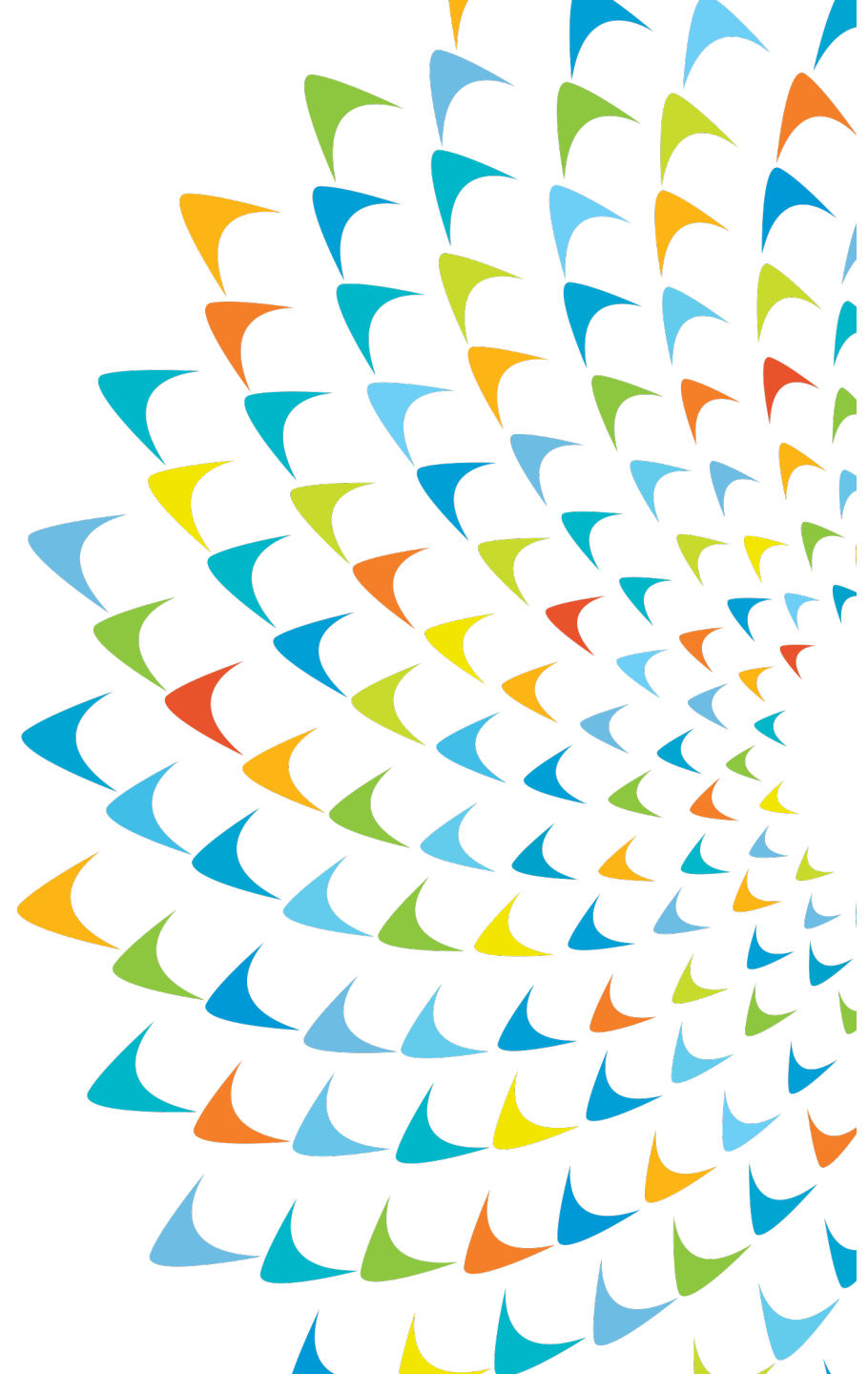


What ADB sovereign operations are doing to support trade...

- ***Programmatic Policy Based Loan for Trade and Competitiveness - Program valued at \$150M (+ grant assistance & possible co-financing)***
- ***Three separate policy-based loans (PBL) of \$50M foreseen, corresponding to the achievement of:***
 - Sub-program 1 (SP1) in 2022
 - Sub-program 2 (SP2) in 2024
 - Sub-program 3 (SP3) in 2026
- ***PBL focuses on three Reform Areas :***
 - RA1: Enhancing the enabling environment for business and investment
 - RA2: Growing MSMEs
 - RA3: Improving trade facilitation and enhancing trade policy



Thank you.



SESSION # 3

TRADE FINANCE IN CAMBODIA

Moderator:

Vincent O'Brien
ICC

Panelists:

- **Zhiger Atchabarov**, Chief Operating Officer ABA Bank
- **Parth Borkotoky**, CEO & Founder, Azaylla

SESSION # 4

FINANCING INTERNATIONAL TRADE – THE FUNDAMENTALS

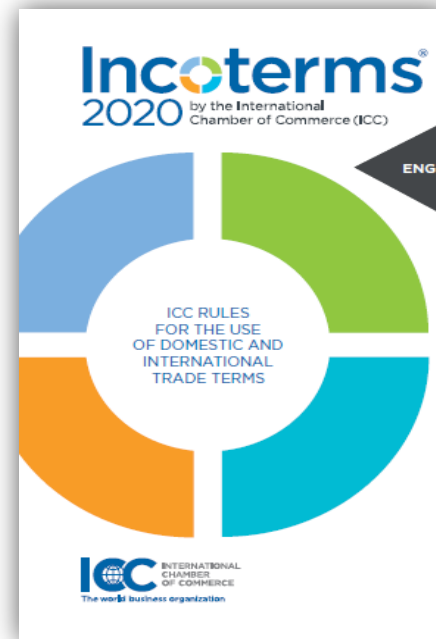
Vincent O'Brien

ICC

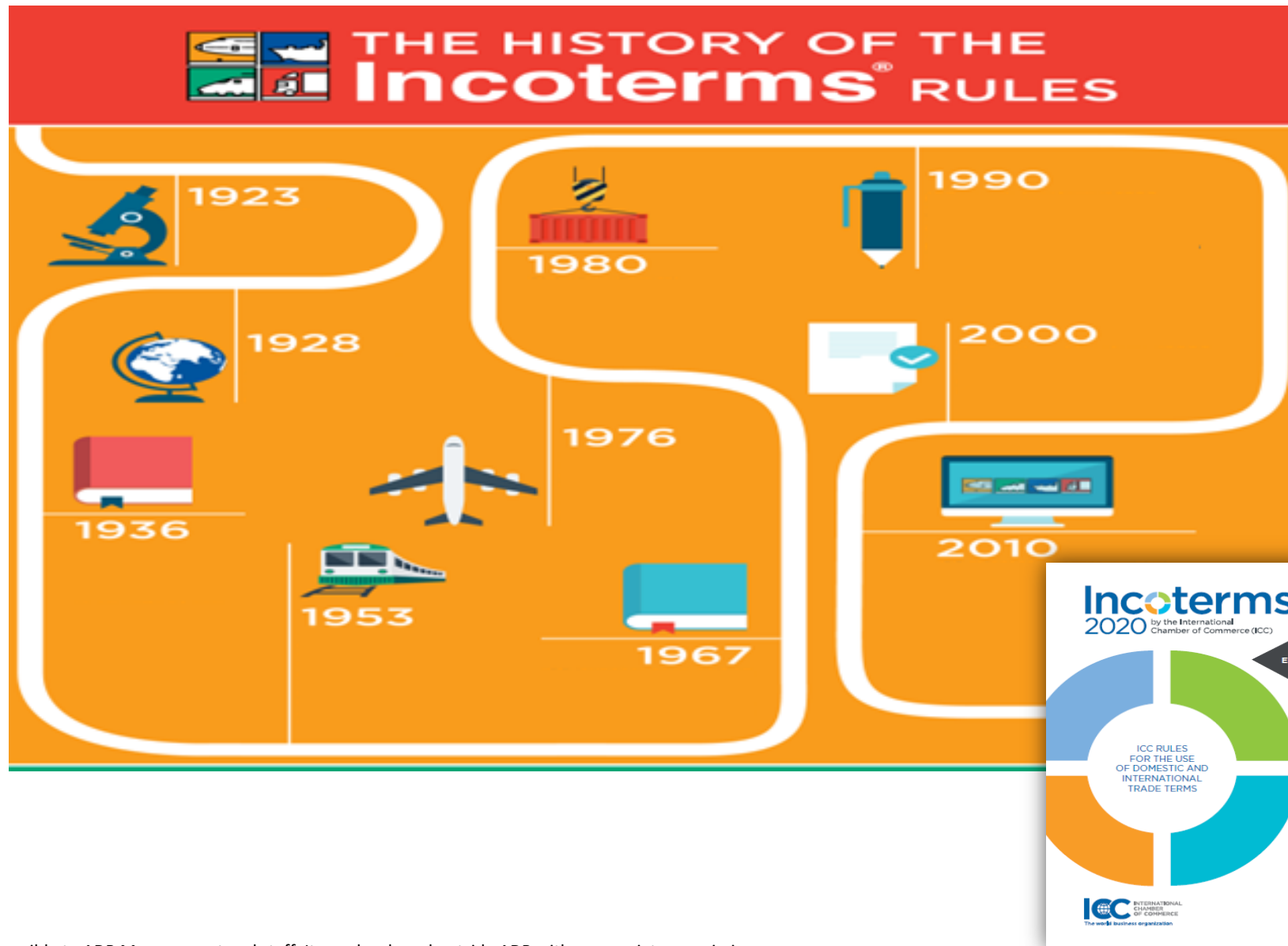
Financing International Trade – the Fundamentals

- Agreeing the International Contract of Sale
- International Trade Terms (INCOTERMS)
- Commercial, Bank, and Country Risk
- Documentary Credit Workflow
- Quiz

Incoterms



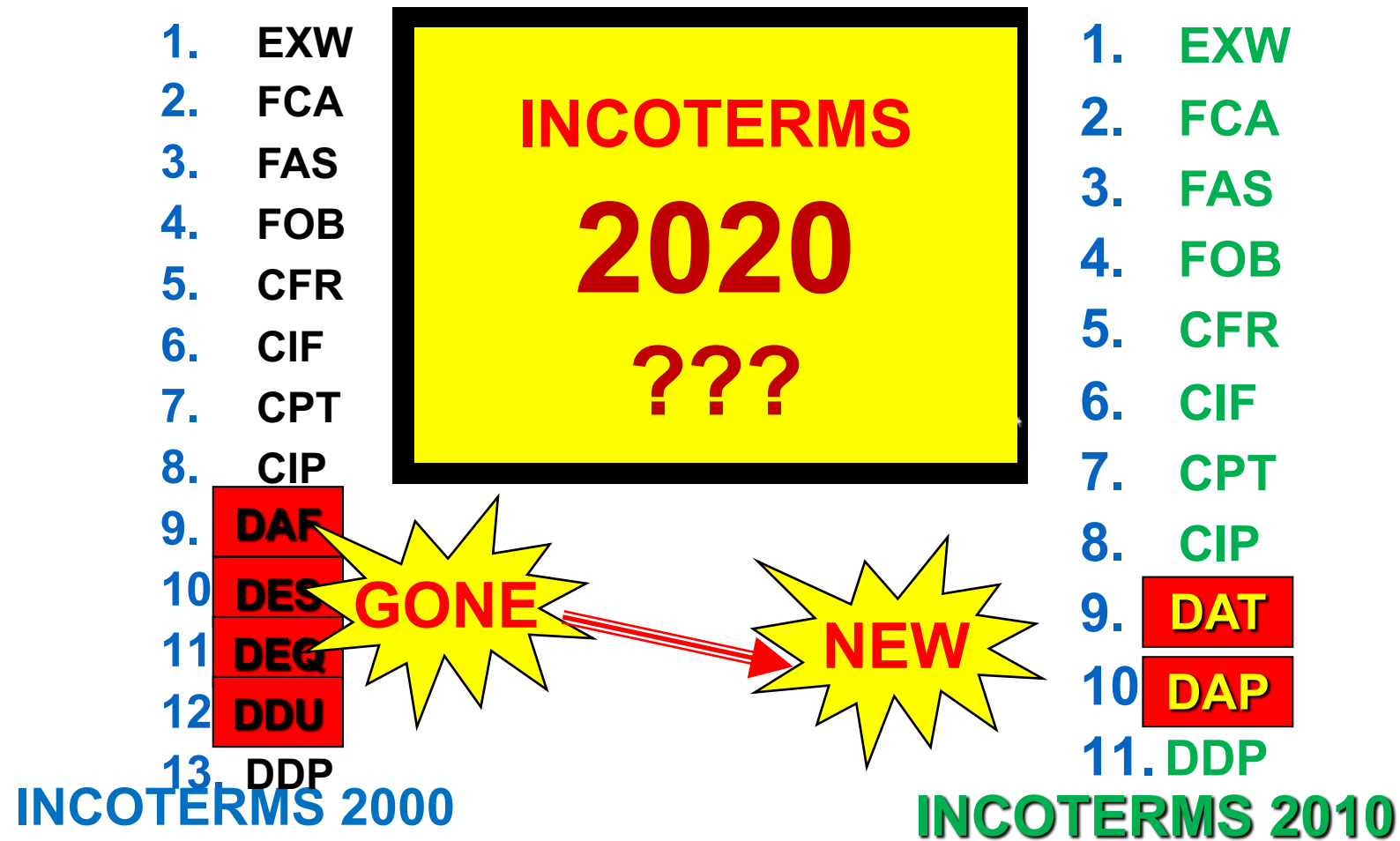
History of Incoterms



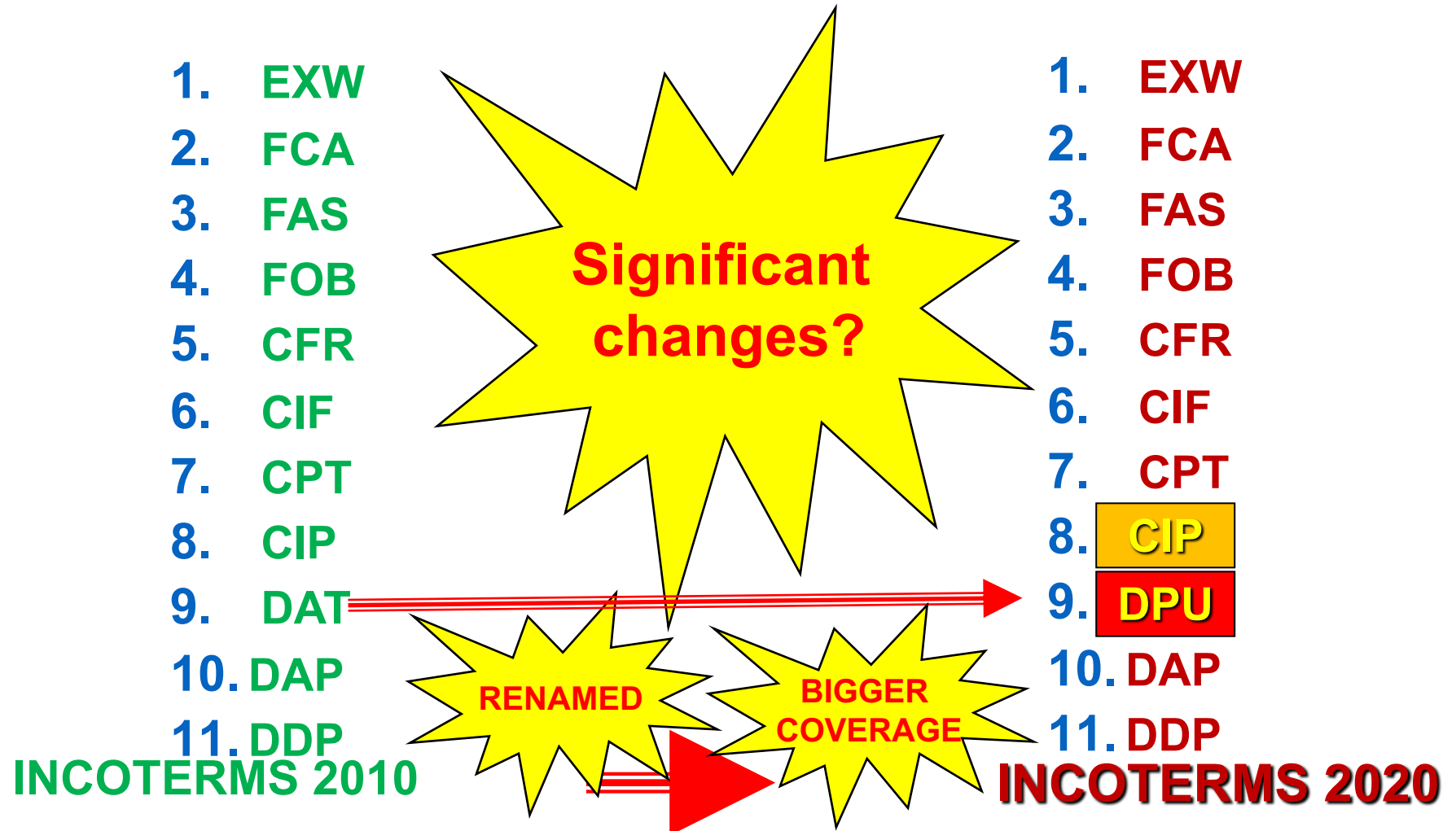
Articles in Incoterms



ARTICLES IN INCOTERMS® 2020 RULES			
Obligations of the Seller		Obligations of the Buyer	
A1	General obligations	B1	General obligations
A2	Delivery	B2	Taking delivery
A3	Transfer of risks	B3	Transfer of risks
A4	Carriage	B4	Carriage
A5	Insurance	B5	Insurance
A6	Delivery/transport document	B6	Delivery/transport document
A7	Export / import clearance	B7	Export / import clearance
A8	Checking / packaging / marking	B8	Checking / packaging / marking
A9	Allocation of costs	B9	Allocation of costs
A10	Notices	B10	Notices



Significant Changes



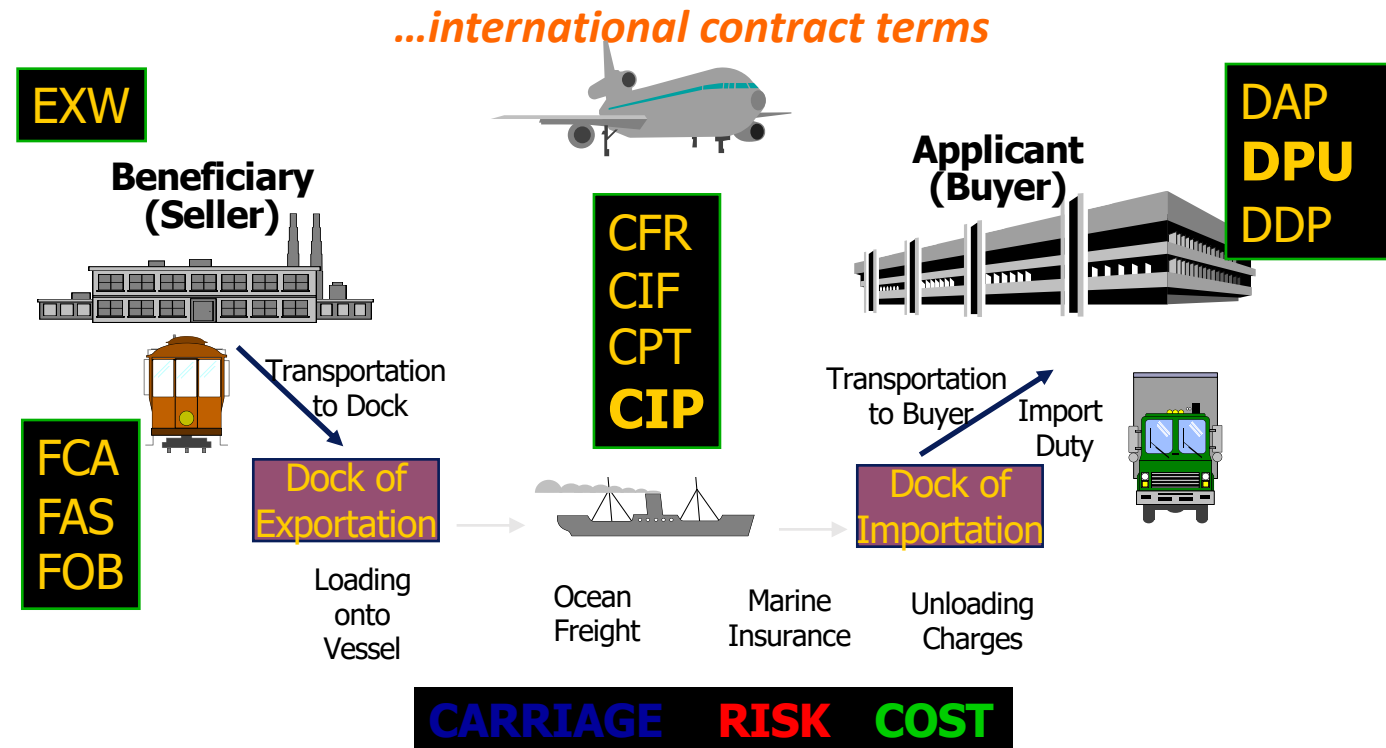


- **First Published in 1936**
- **International Rules**



1936 – 1957 – 1967 – 1974 – 1980 – 1990 – 2000 – 2010

INCOTERMS



Risk?

Risk?

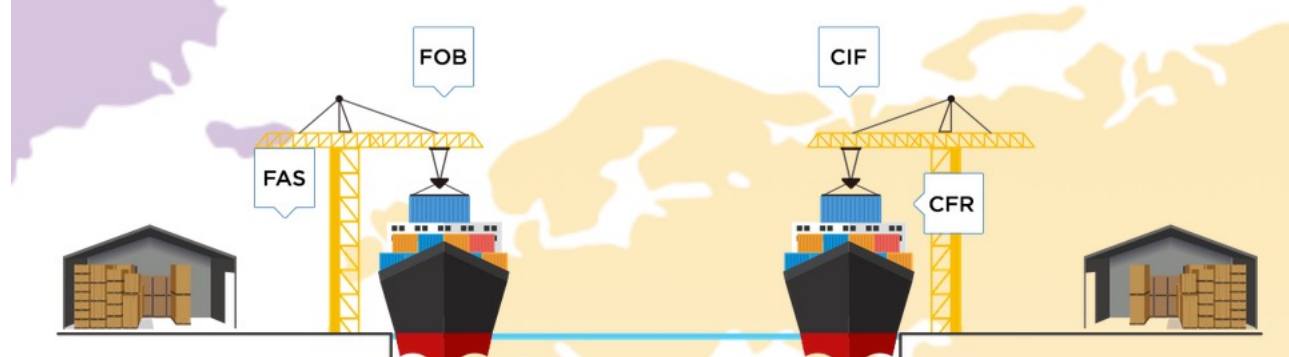


Rules for Modes of Transport

Rules for any mode or modes of transport

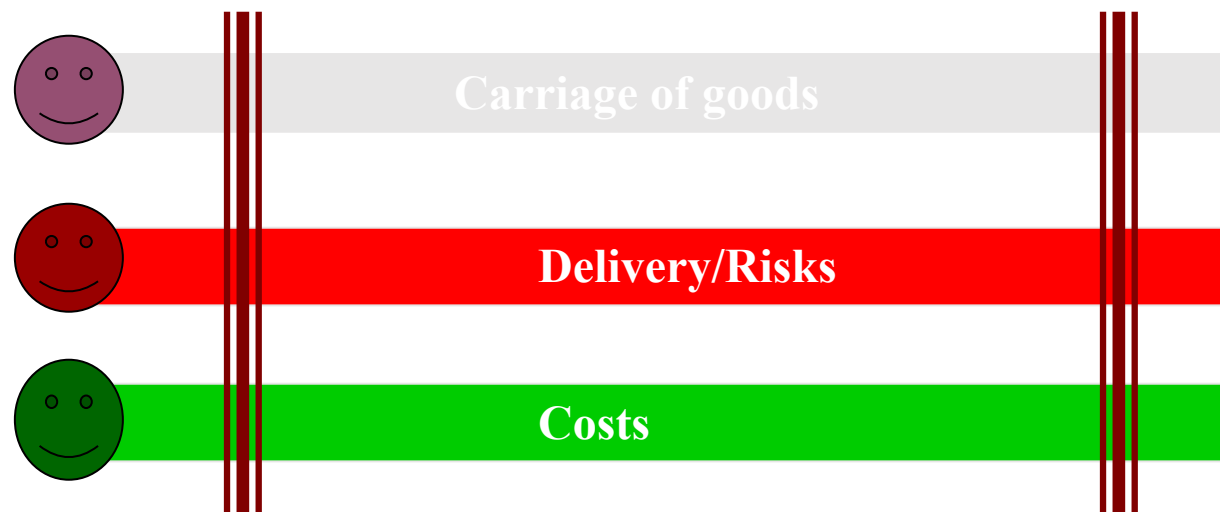


Rules for sea and inland waterway transport



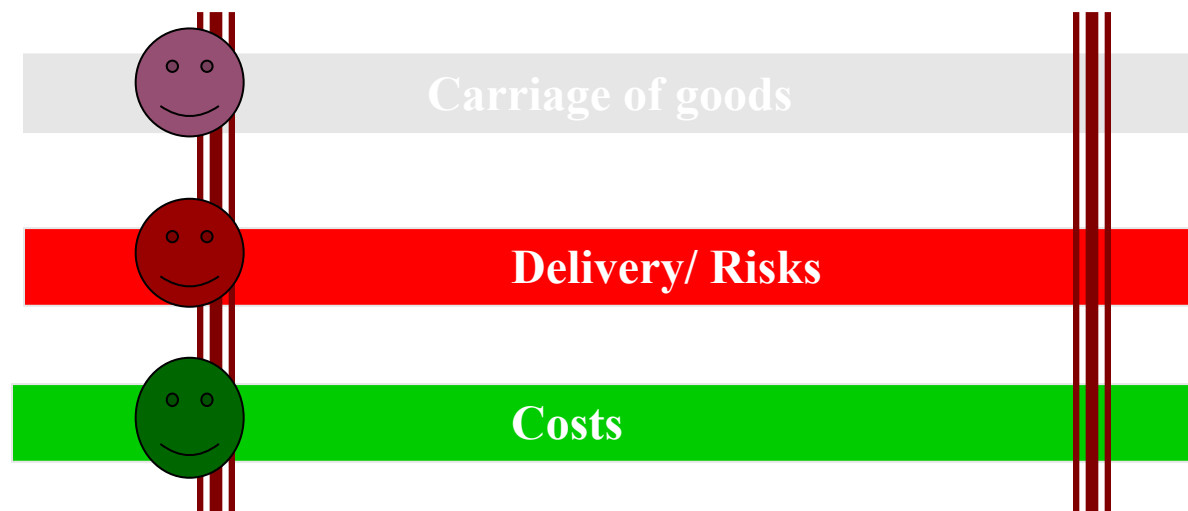


EXW (..named place)



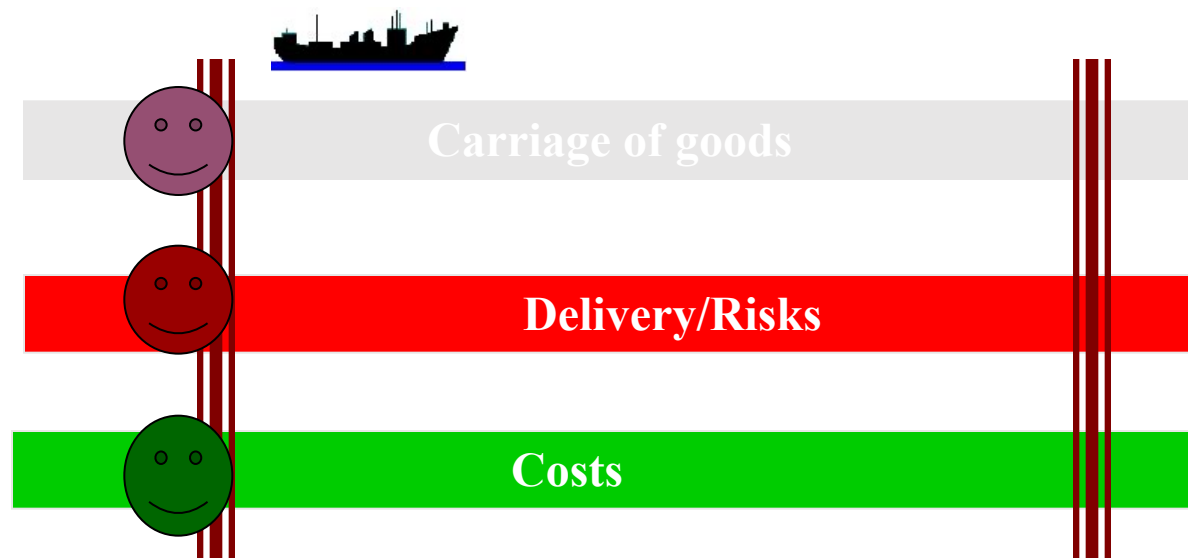


FCA (..named place)



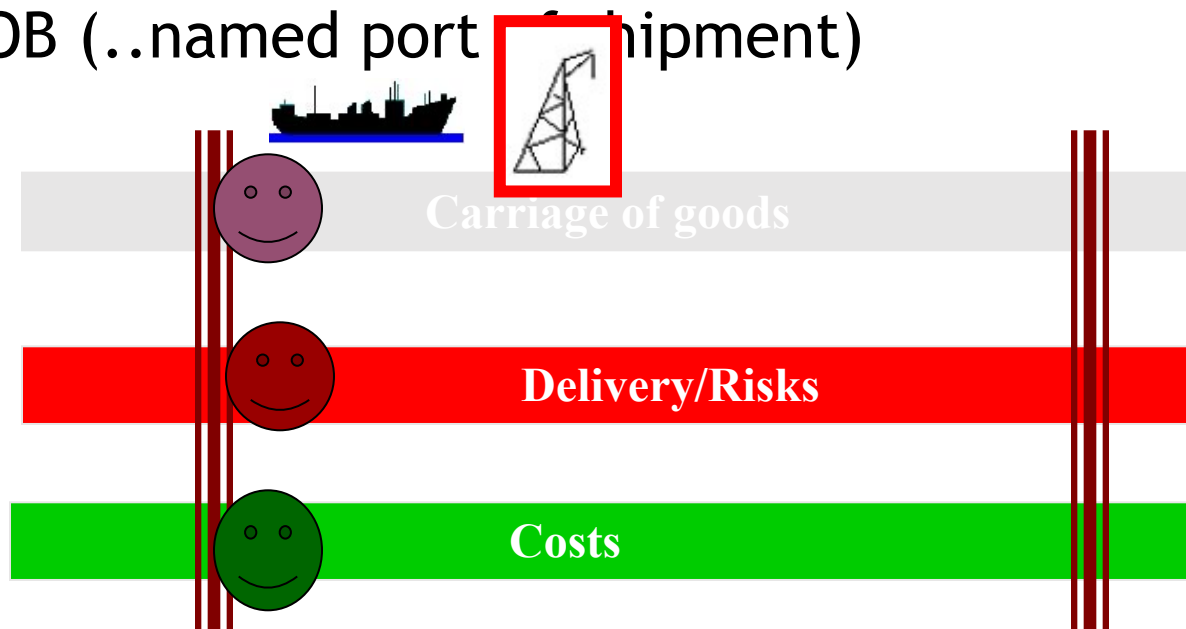


- FAS (..named port of shipment)



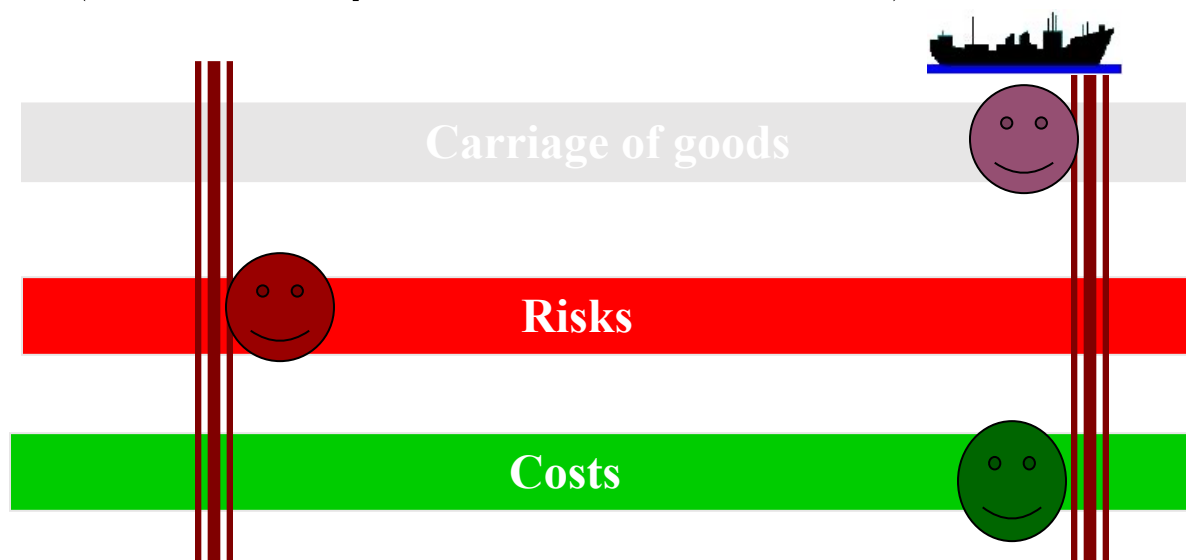


- FOB (..named port of shipment)





- CFR (..named port of destination)





- CIF (..named port of destination)



This COVID-19 is problematic for us!

We shipped on the basis of CIF [REDACTED] (INCOTERMS 2020) in line with your advices at seminars.

The goods were loaded on board the vessel [REDACTED] at [REDACTED] for destination [REDACTED]

The problem is that due to lockout at port of destination the goods could not be unloaded and the buyer is suffering acute delay in delivery of the goods, plus demurrage etc.

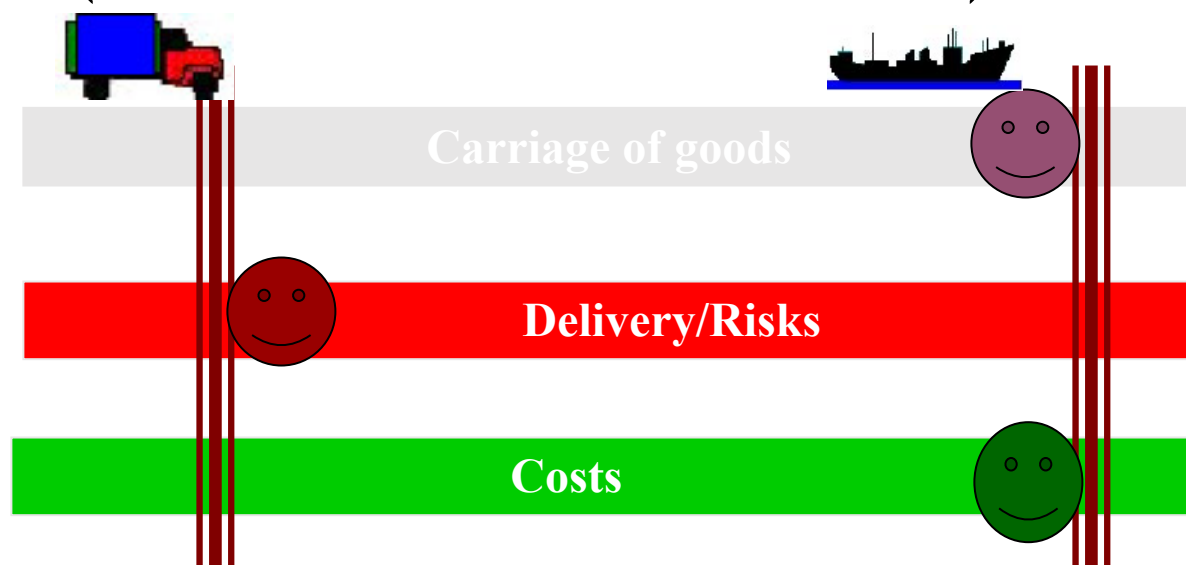
The buyer has holding back payment due to Force Majeure at the port of discharge which he says is unexpected and beyond his control as it is state driven lockdown for health purposes.

What can I do as if goods not delivered and we will lose payment rights?

Aashi



- CPT (..named **PLACE** of destination)

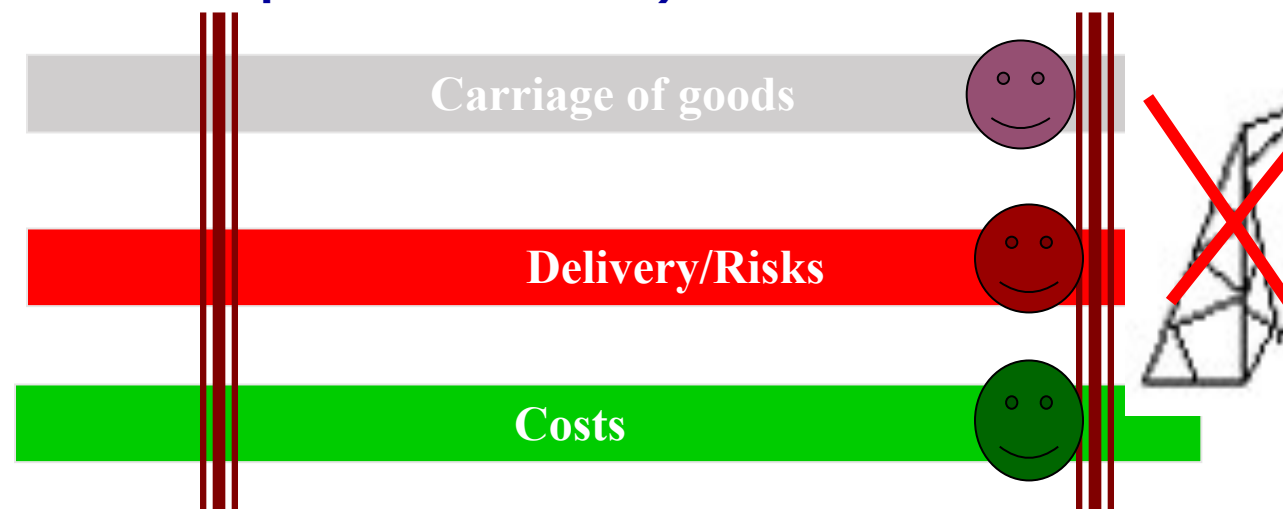


EXW - FCA - CPT - CIP - **DAP** - DPU - DDP - FAS - FOB - CFR - CIF

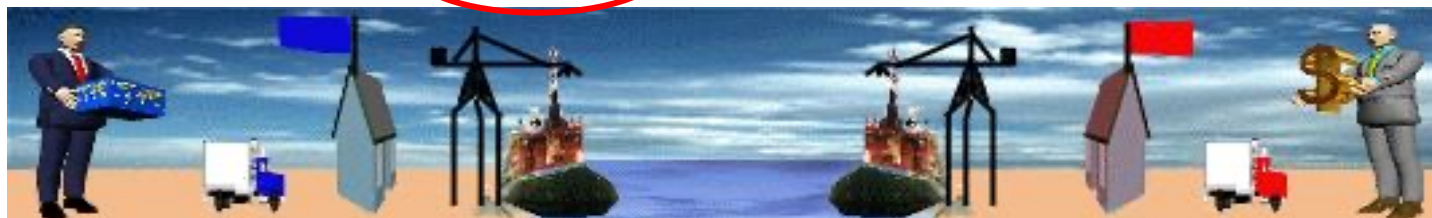


DELIVERED AT PLACE

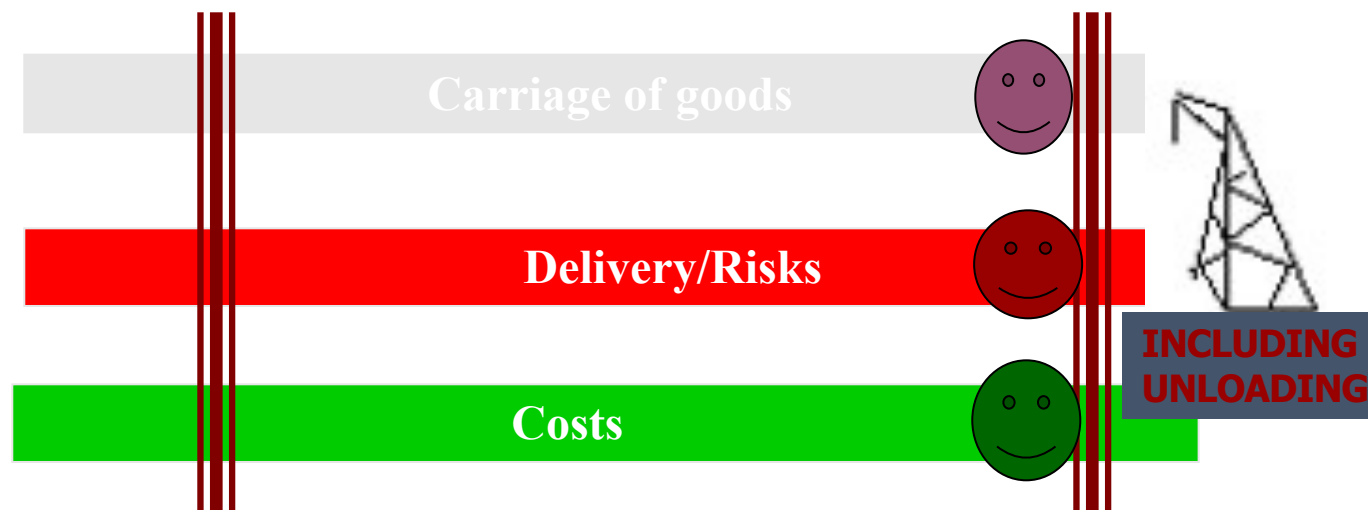
DAP (insert named place of destination)



EXW - FCA - CPT - CIP - **DAP** - **DPU** - DDP - FAS - FOB - CFR - CIF



DELIVERED AT PLACE UNLOADED



***THE
INCOTERMS
2020 rules....***

QUIZ !!!!



Question 1

In all of the Incoterms 2020 rules, the seller has an obligation to provide the buyer with a commercial invoice.

- True
- False

Question 2

When CPT, CIP, CFR or CIF are used, the seller fulfils its obligation to deliver when it hands over the goods to the carrier in the manner specified in the chosen rule and not when the goods reach the named port of destination or place of destination.

- True
- False

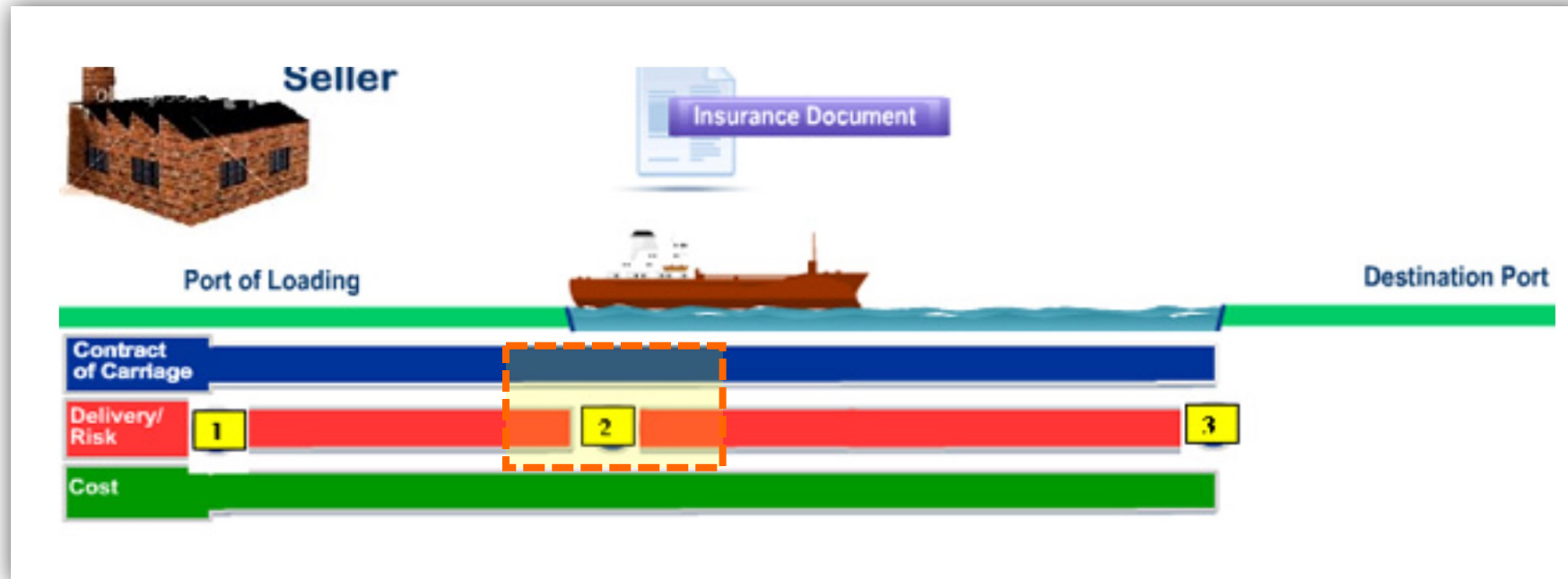
Question 3

Under which of the Incoterms 2020 rules must the seller deliver the goods on a quay or a barge at the port of shipment nominated by the buyer? The risk of loss or damage to the goods passes when the goods are delivered on the quay or barge, and the buyer bears all costs from that moment onwards?

- | | |
|-------|-------|
| • EXW | • DDP |
| • FCA | • FAS |
| • CPT | • FOB |
| • CIP | • CFR |
| • DAP | • CIF |
| • DPU | |

Question 4

At which point (1, 2 or 3) does risk transfer from seller to buyer under CIF Named Port of Destination?



Question 5

Which is the best **FOB** or **VOB**?

- FOB
- VOB



Workshop on Traditional Trade

Date 22 – 23 March 2023

Venue Hyatt Regency Phnom Penh
#55 Street 178 Sangkat Chey Chumnas, Khan Doun Penh, Phnom Penh, Cambodia

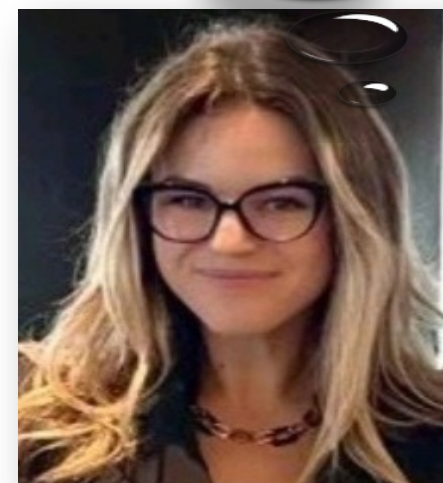
Documentary Credit Workflow

**Payment...
...Risk!...
export finance?**

**Performance...
...Risk!...
...import finance...**



EXPORTER



IMPORTER

What is UCP?



• UCP 600

• ISBP

• URC 522

• ISP98

• URDG 758

• URR 725

• INCOTERMS

Effective from 1st July 2007

ICC Uniform Customs
and Practice for

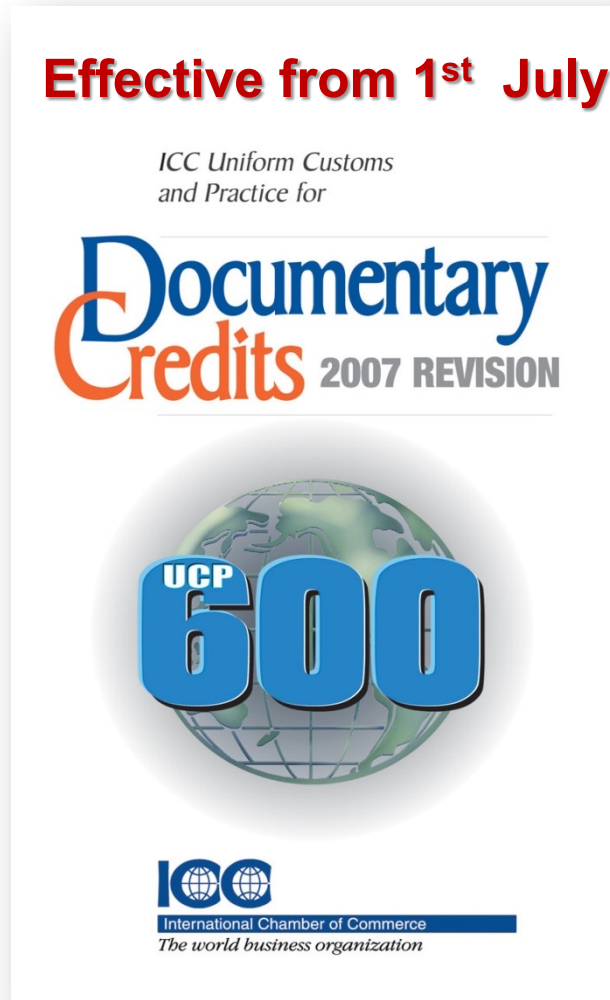
Documentary Credits 2007 REVISION

UCP
600



International Chamber of Commerce
The world business organization

Letters of Credit Advanced Workshop



1933	UCP # 82	First
1951	UCP # 151	
1962	UCP # 222	
1974	UCP # 290	
1983	UCP # 400	
1993	UCP # 500	
2007	UCP # 600	

Letters of Credit Advanced Workshop

Commercial Risk – Bank Risk – Country Risk



EXPORTER



PRE-EX



Payment...
...Risk!...
export finance

BRIDGING THE RISK

S.W.I.F.T. Letter of Credit in favour of Jordan Heavy Industry
Issued by First Bank of Japan, Tokyo Japan.

FIN MESSAGE (1: F01SWAABET0AXXX0170000754)
700 Issue of a documentary credit (2: 1700SWAABET0XXXXN) >

:27 sequence of total :
1/1
:40A form of documentary credit :
IRREVOCABLE
:20 documentary credit number :
1234567
:31C date of issue :
97/07/01
:31D date and place of expiry :
97/09/30 Dublin
:50 applicant :
Orient Construction
123 Bird of Paradise Boulevard
Tokyo
:59 beneficiary
Jordan Heavy Industry
67 Hill Street
Dublin
:32B currency code amount :
currency code
amount
:41A available with/by - swift addr :
EXDBIE2D
EXPORT DEVELOPMENT BANK
BY PAYMENT
:42C drafts at :
SIGHT DRAWN ON EX
:43P partial shipment
NOT PERMITTED
:43T transshipment
NOT PERMITTED
:44A on board/shipping
DUBLIN PORT
:44B for transportation
TOKYO PORT
:44C latest date of ship
97/09/09
:45A descr goods and
125000 UNITS OF
CIF TOKYO, JAPAN
:46A documents required
+COMMERCIAL INVOICE
DETAILED DESCRIPTION
+INSURANCE CERTIFICATE
ALL RISKS AS PER INSTITUTE
CLAIMS PAYABLE IN JAPAN
+CERTIFICATE OF QUALITY
+CERTIFICATE OF ORIGIN
+FULL SET 3/3 CLEAN ON BOARD
CONSIGNMENT TO ORDER FIRST BANK
TOKYO MARKED FREIGHT
:47A additional conditions :
THE NUMBER AND DATE OF THIS CREDIT AND THE NAME OF
OUR BANK MUST BE QUOTED ON ALL DOCUMENTS REQUIRED
:71B charges :
ALL CHARGES OUTSIDE JAPAN ARE FOR THE BENEFICIARY'S
ACCOUNT
:48 period for presentation :
WITHIN 21 DAYS OF THE ISSUE OF THE TRANSPORT DOCUMENTS
BUT WITHIN THE VALIDITY OF THE CREDIT
:49 confirmation instructions :
CONFIRM
:78 instructions to pay/accept bk :
WE AUTHORISE YOU TO CLAIM ON OUR ACCOUNT NO 9899876
WITH INTER BANK NEW YORK AT MATURITY. SUBJECT TO
UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY
CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF
COMMERCE PUBLICATION NO 500 FORWARD ORIGINAL
DOCUMENTS DIRECT TO US BY COURIER.
:5 (MAC : 32EFFDD7) AUTHENTICATION RESULT
(CHK : F4D3AC6C8805) Checksum Trailer
END



Performance...
...Risk!...
...import finance...

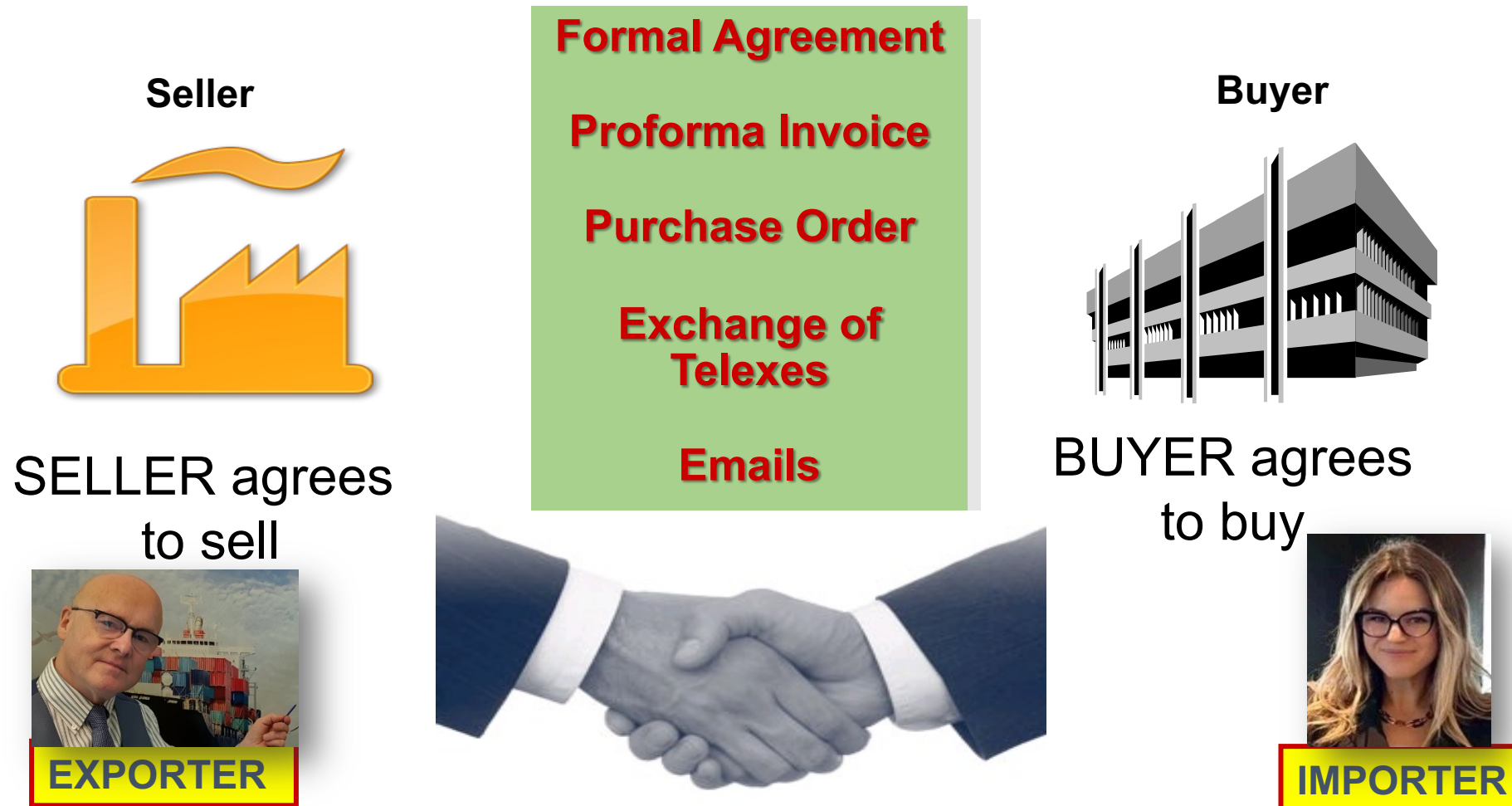


IMPORTER

Letters of Credit Advanced Workshop

Section 1 – Technical Analysis

That Contract may take a number of different forms:



Linking the Contract to the Letter of Credit

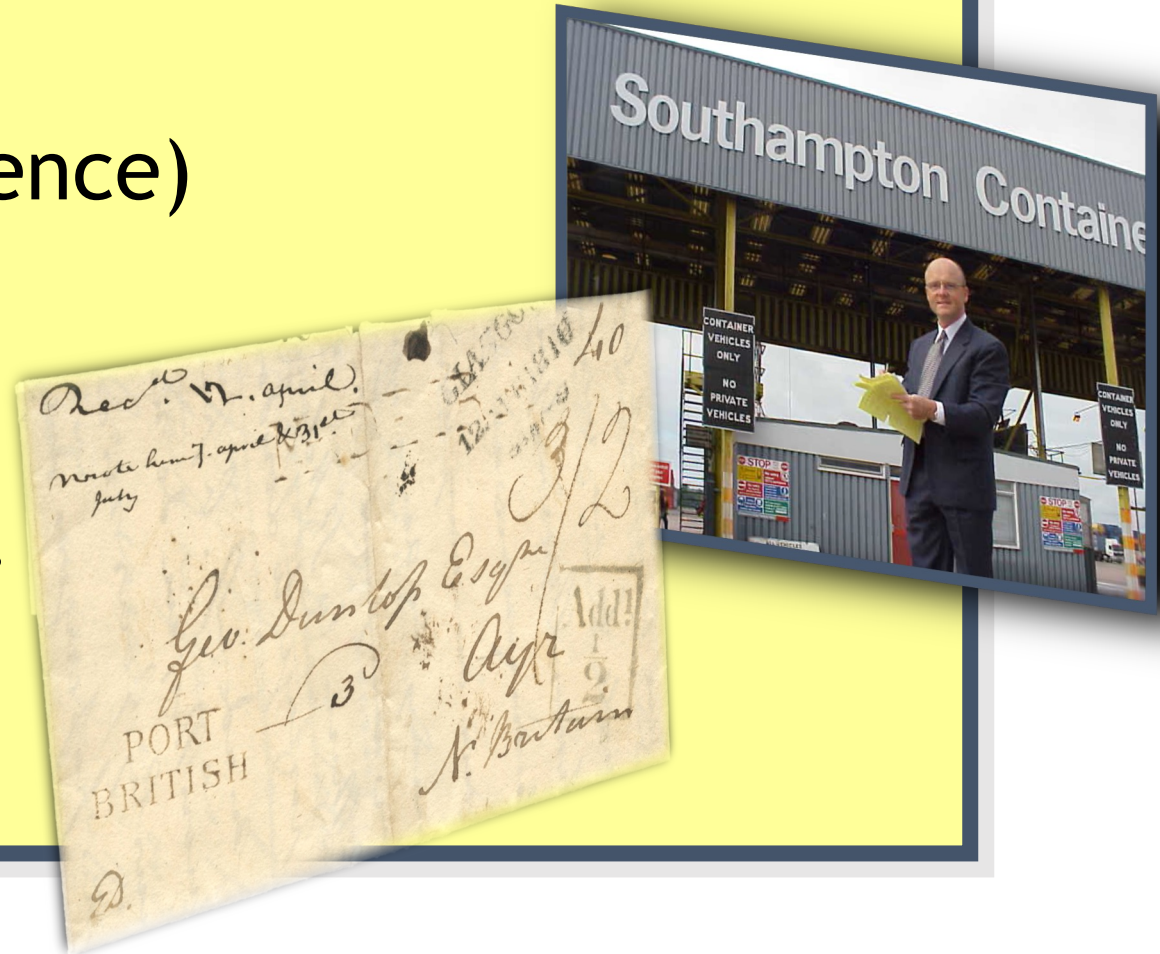
From ...

To ...

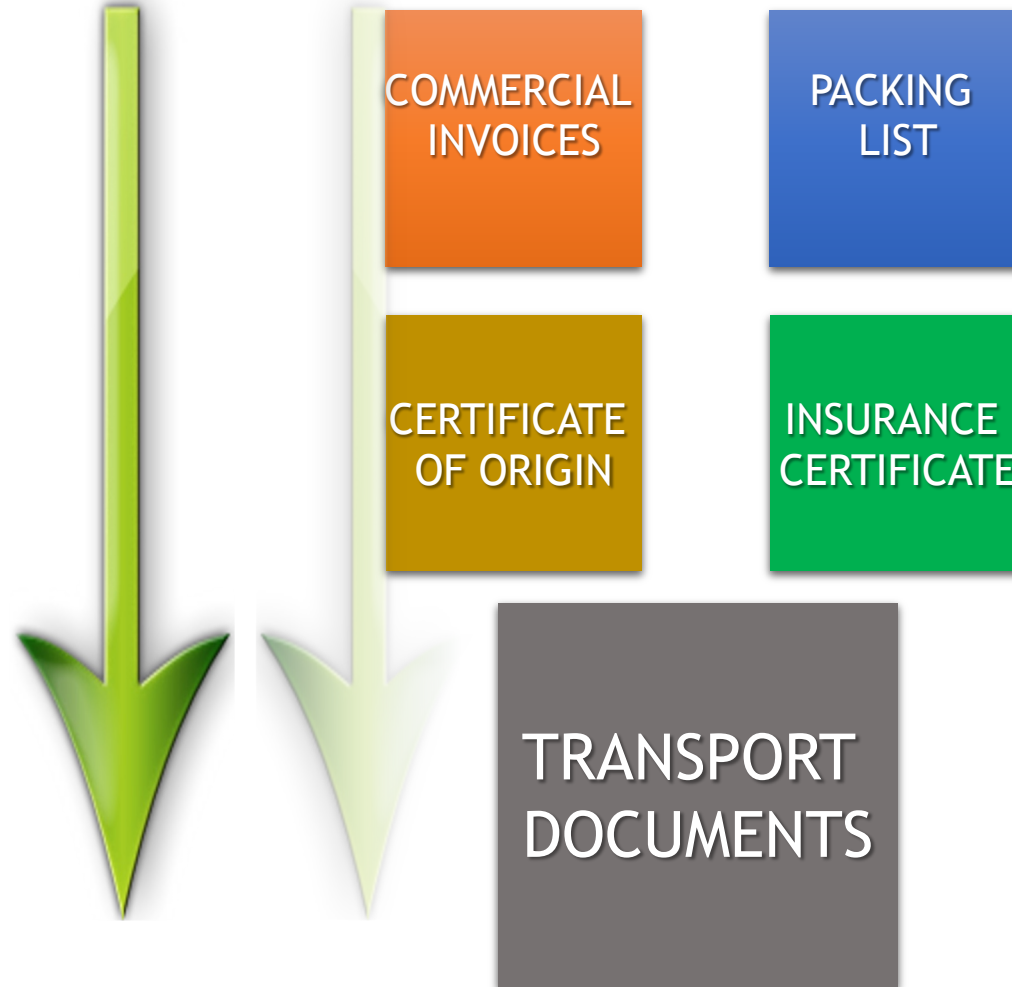


The Role of Documents in International Trade

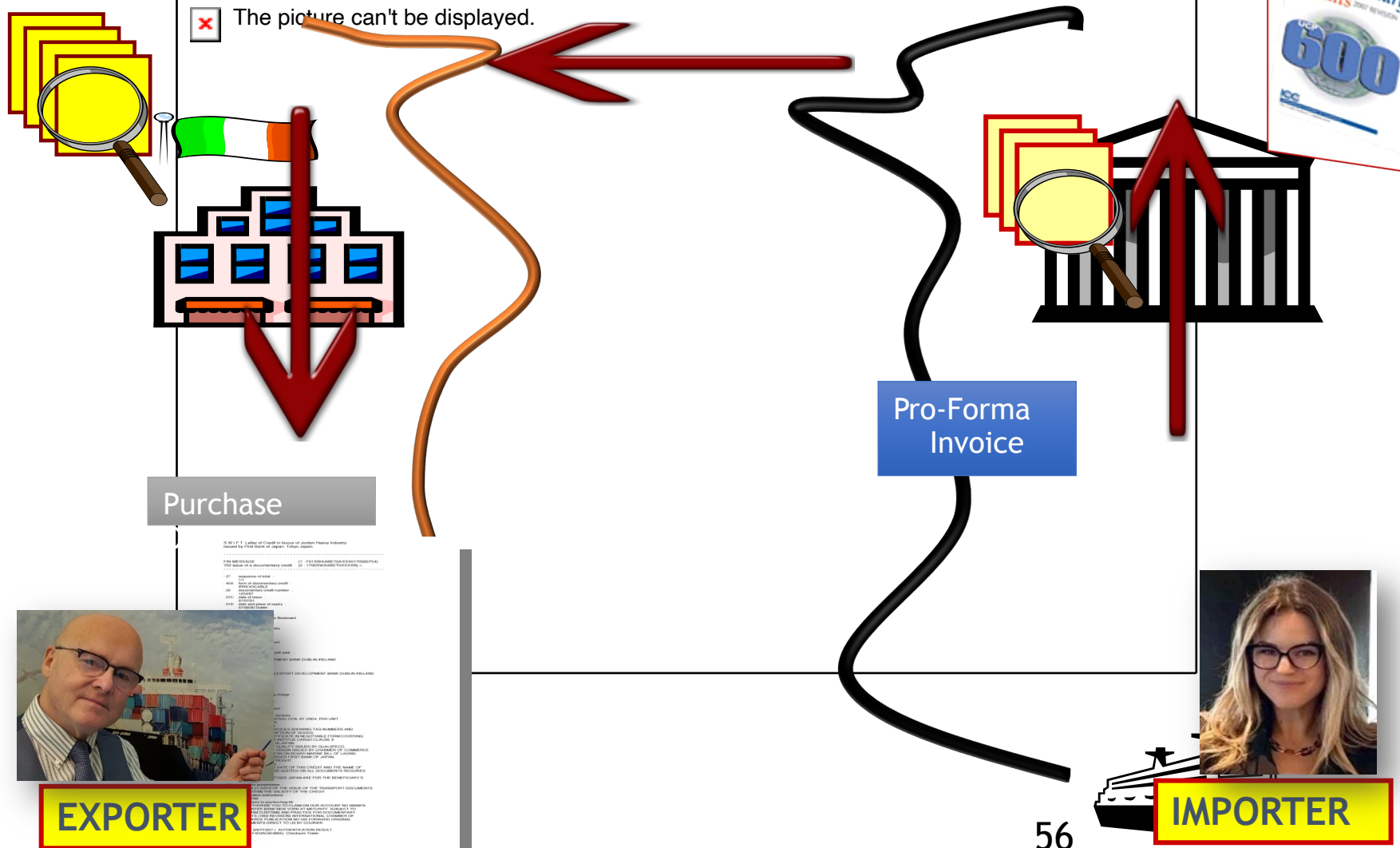
- Evidence of specific fact or action.
- Presentation of Documents (evidence) to banks under Collections or Letters of Credit.



Financial or Commercial



THE PARTIES COMMERCIAL CREDIT

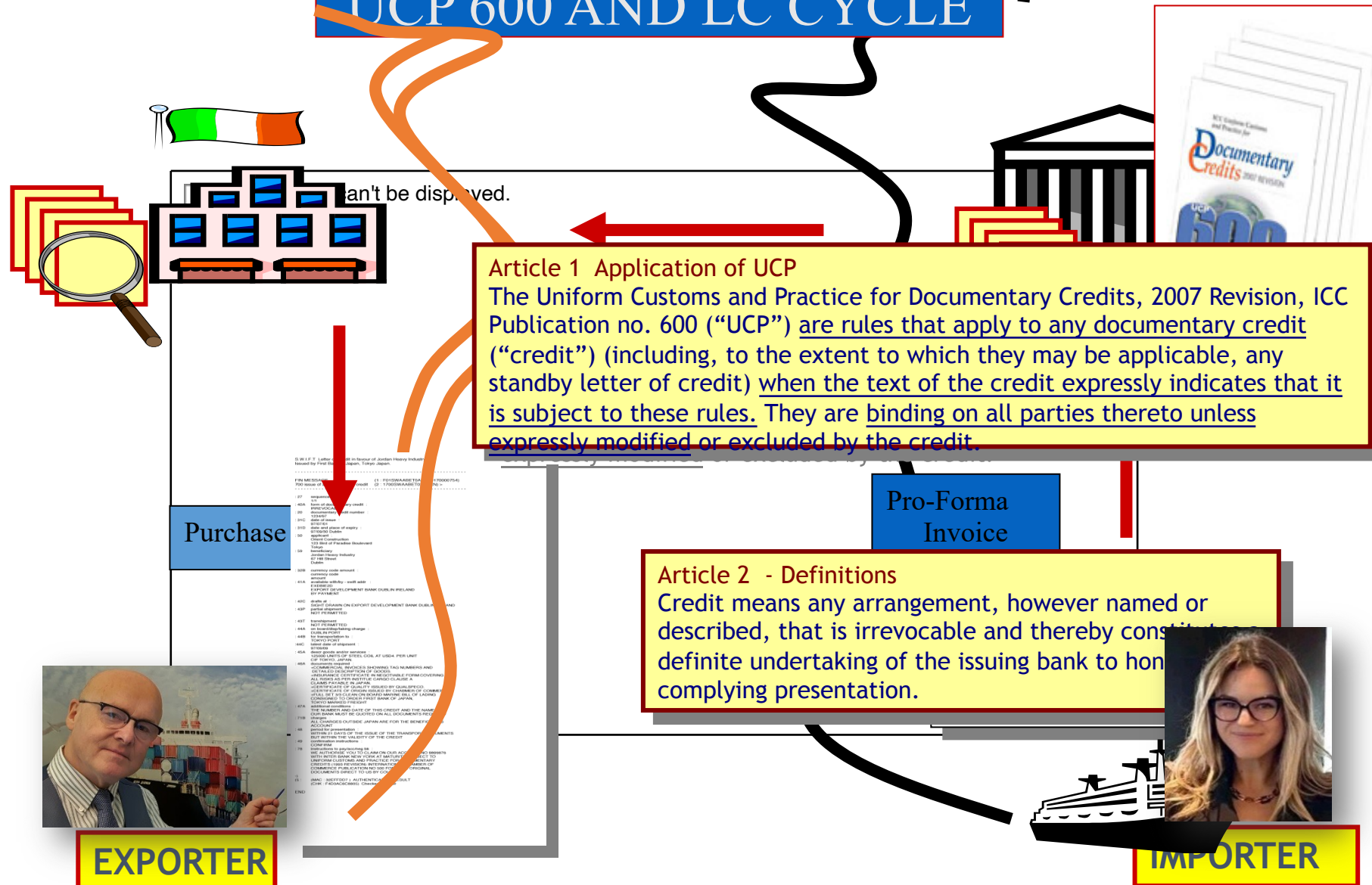


EXPORTER

IMPORTER

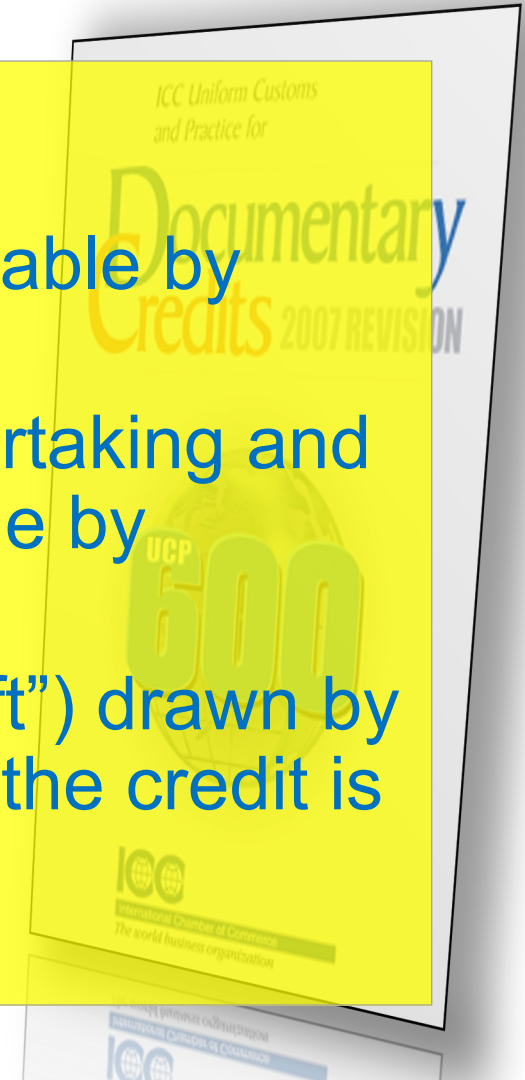
Technical Analysis

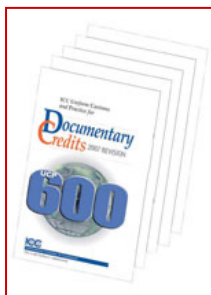
UCP 600 AND LC CYCLE



The UCP 600 concept of Honour

- Honour means:
 - a. to pay at sight if the credit is available by sight payment.
 - b. to incur a deferred payment undertaking and pay at maturity if the credit is available by deferred payment.
 - c. to accept a bill of exchange (“draft”) drawn by the beneficiary and pay at maturity if the credit is available by acceptance.





Article 4 Credits v. Contracts

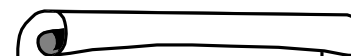
a. A credit by its nature is a separate transaction from the sale or other contract on which it may be based. Banks are in no way concerned with or bound by such contract, even if any reference whatsoever to it is included in the credit.



Article 5

Documents v. Goods, Services or Performance
Banks deal with documents and not with goods, services or performance to which the documents may relate.

Pro-Forma



Pro-Forma



Article 8 Confirming Bank Undertaking

Provided that the stipulated documents are presented to the confirming bank or to any other nominated bank and that they constitute a **complying presentation**, the confirming bank must:

honour, if the credit is available by sight payment, deferred payment or acceptance with the confirming bank;

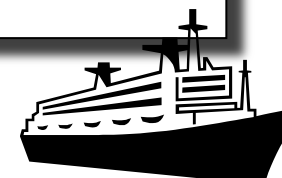
ii. **negotiate**, without recourse, if the credit is available by negotiation with the confirming bank.

Beneficiary

Article 7 Issuing Bank Undertaking

a. Provided that the stipulated documents are presented to the nominated bank or to the issuing bank and that they constitute a **complying presentation**, the issuing bank **must** honour

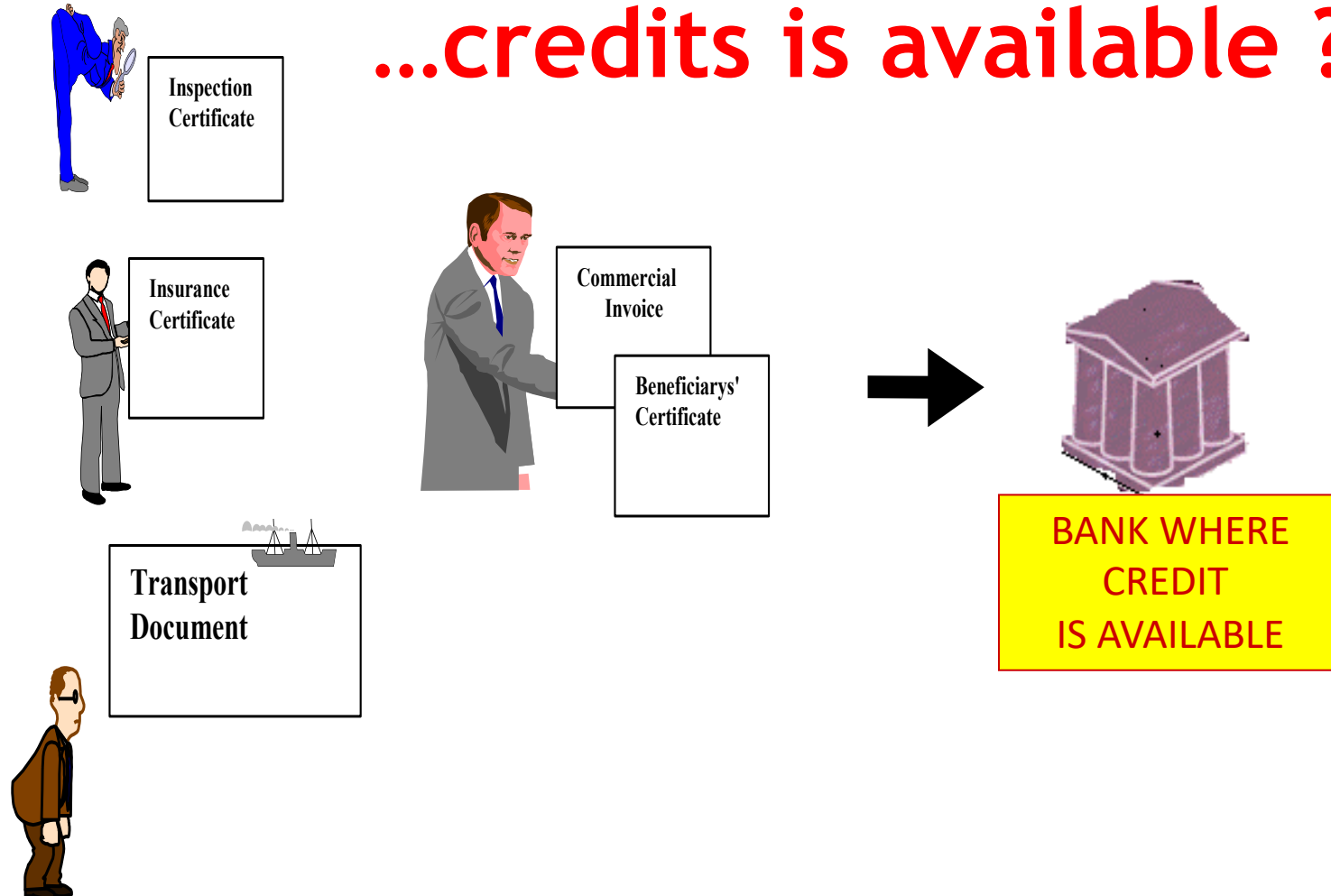
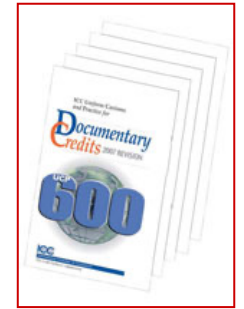
importer
Applicant



Letters of Credit Advanced Workshop

Section 1 – Technical Analysis

Presentation to a bank where ...credits is available ????



Letters of Credit Advanced Workshop

Section 1 – Technical Analysis

Are these documents acceptable????



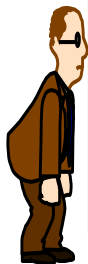
As a banker I check documents.... which evidence performance.. If the documents comply the bank must .



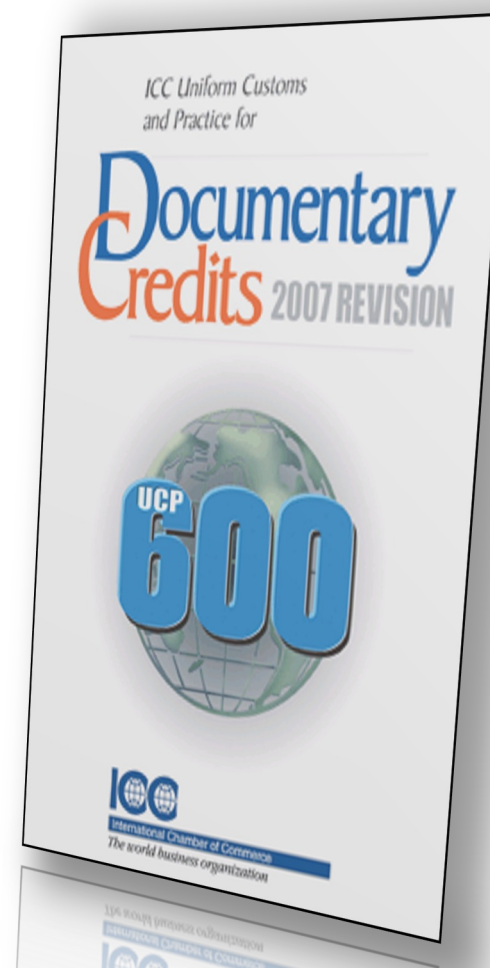
BANK WHERE

Article 34 Disclaimer on Effectiveness of Documents

A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon; nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance represented by any document, or for the good faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.

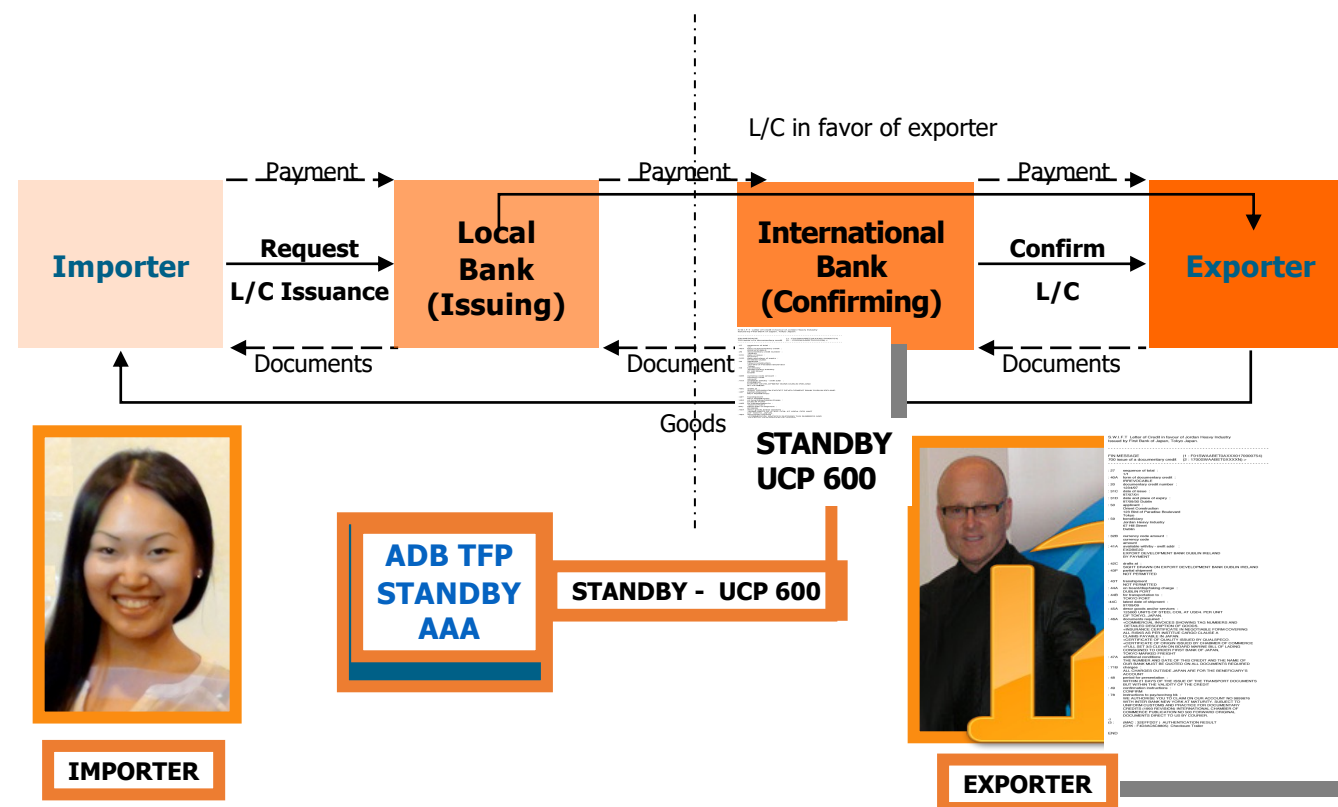


DOCUMENT PREPARATION AND EXAMINATION!



The Typical Trade Facilitation Deal

How it works!



Thank you

SESSION # 5

DOCUMENTARY CREDITS CASE STUDY IN ACTION

Roger Packham
ADB TSCFP



Documentary Credits (L/Cs)

**Versatile & Secure Payment Method to better
Manage Risk in Cross border Trade**

Roger Packham

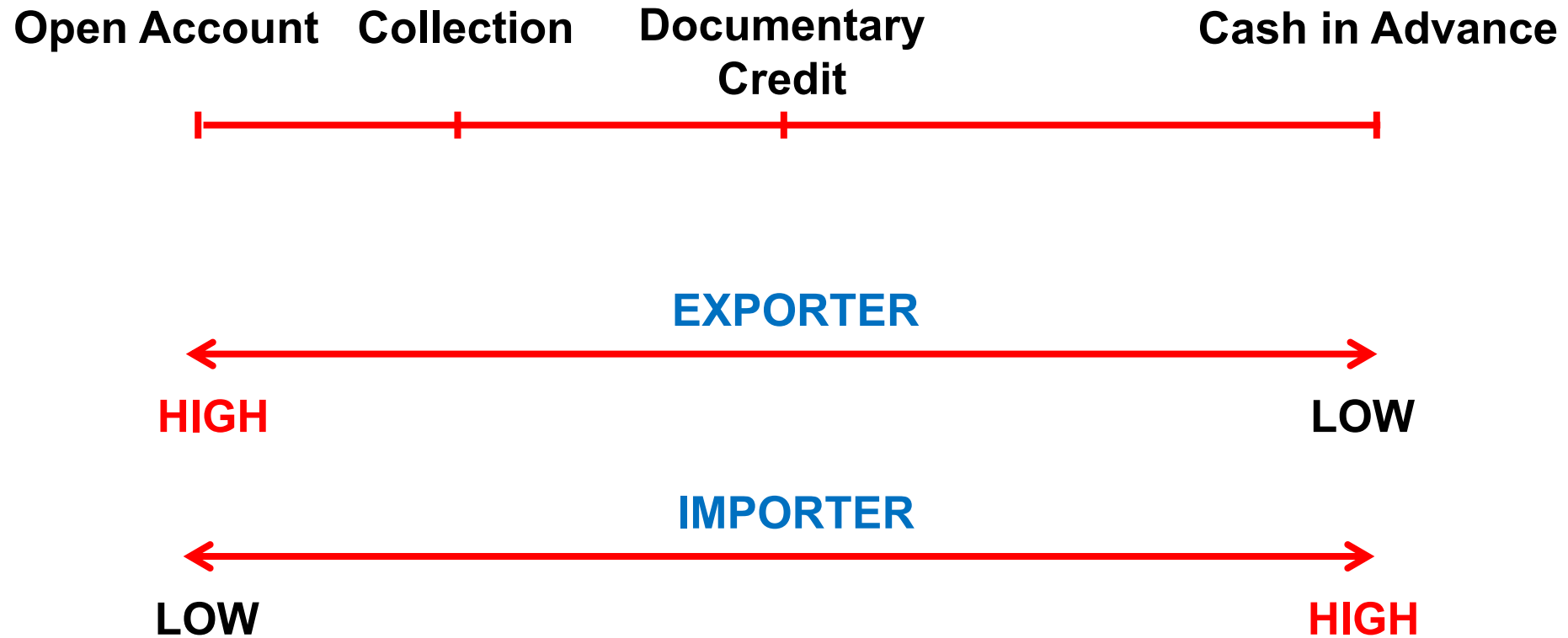
Consultant

March 2023

Customers' Objectives

- **Maximize cash flow** from international transactions by improving management of working capital
- **Speed up collection** of export receivables
- **Get longer supplier credit terms**
- **Minimize risk exposures** arising from international trade
- Secure solutions and **reduce risk of fraud**
- **Increase Sales find new markets/customers**
- **An L/C can do all these things!**

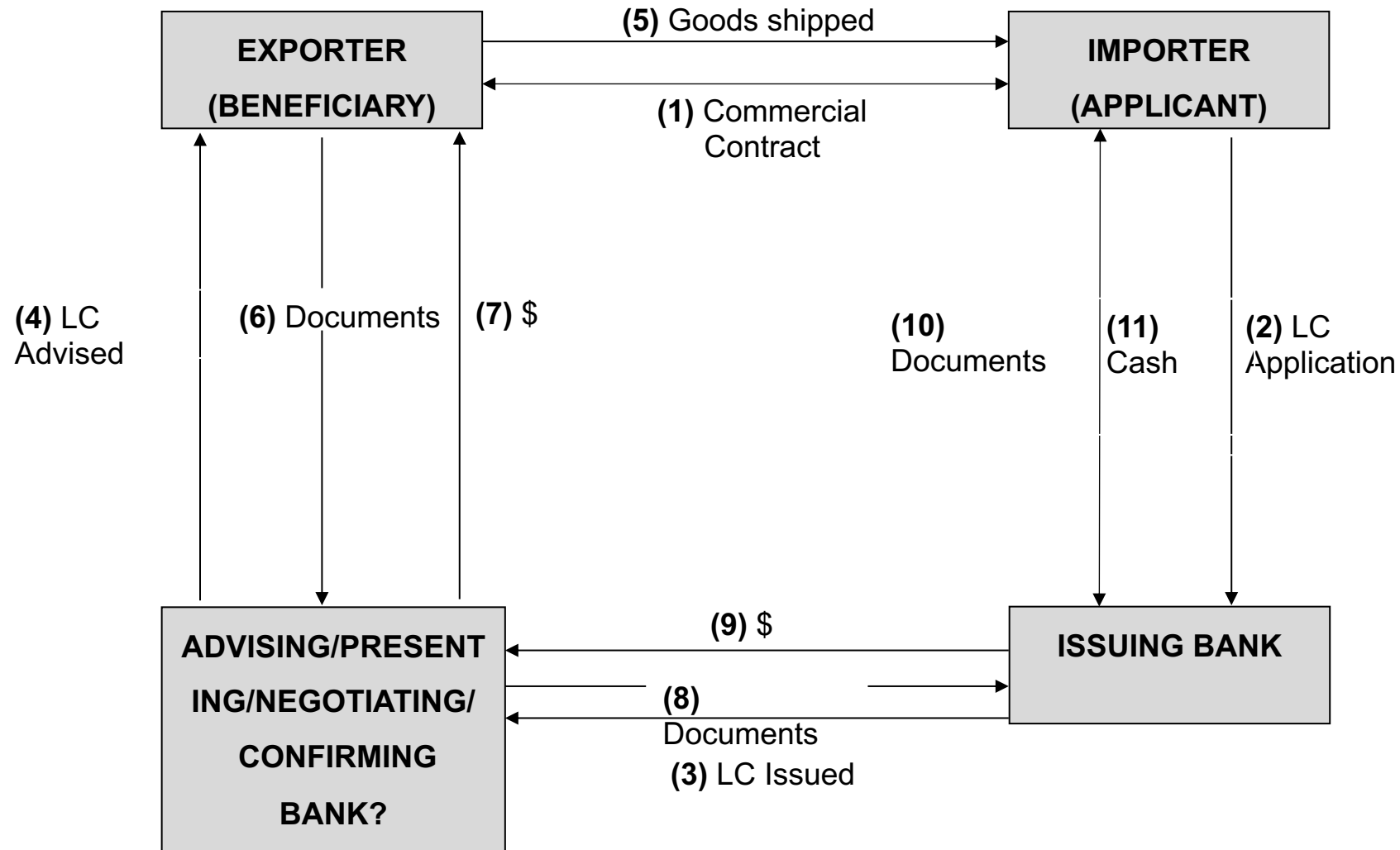
Methods of Payment: Scale of Risk



Documentary Credit Definition

- A documentary credit is a written undertaking by a bank (a “Credit”) given to the Exporter at the Importer’s request, to effect payment up to a stated amount within a stated time.
- The payment is effected against presentation of specified documents that must **COMPLY** with the terms of the Credit.
- Governed by ICC rules/publication Uniform Customs & Practices for Documentary Credits (UCP600).

Documentary Credit (L/C) Cycle



Consideration before L/C Issuance

Importer of Motor Vehicles wants to issue L/C to Thailand covering shipment of 30 SUVs covering next 6 months sales. Value USD30k per vehicle, total USD900k.

Solution open a 60-day Usance LC allowing partial shipments (10 vehicles every 2 months). Supplier can still be paid at sight.

Considerations:

- Trade Facility (L/C line)
- Client track record/ability to perform/reputation
- The Goods (Title & Control?), shipment from 3rd country?
- Documentation/Security
- Underlying transaction, who is the Beneficiary
- LC Confirmation?
- Workability of the DC
- Insurance (Incoterm)

Benefits of LCs. Importers Perspective

Advantages:

- Can specify documents required to trigger payment
- Can nominate latest (partial?) shipment & expiry dates
- Payment only made after evidence of shipment and full compliance with L/C terms & conditions
- Should eliminate need to provide down payment/cash deposit
- Can request credit terms, improve cash flow
- Exporter/beneficiary can still be paid at sight
- Alternatively, applicant can request post import finance (Trade Loan)
- Reduce the risk of Fraud

Advantages:

- Can offer credit terms to buyers & still be paid at SIGHT.
- Reduce interest costs by discounting of LCs in FCY
- Better manage FX Risk
- Transfer payment risk to Issuing Bank from buyer
- Utilizes Bank lines as opposed to customer lines
- Can increase Sales!

Others:

- Finance can be with or without recourse
- Documents need to be fully compliant, no discrepancies

Documentary Credit (L/C): Advantages and Risks to Exporter

Advantages

- The Exporter can rely on the issuing bank's creditworthiness rather than the Importer's.
- The Exporter reduces the risk of delay in payment due to political or transfer problems (confirmation).
- In some countries, the Letter of Credit can be used as security to raise pre-shipment funding.

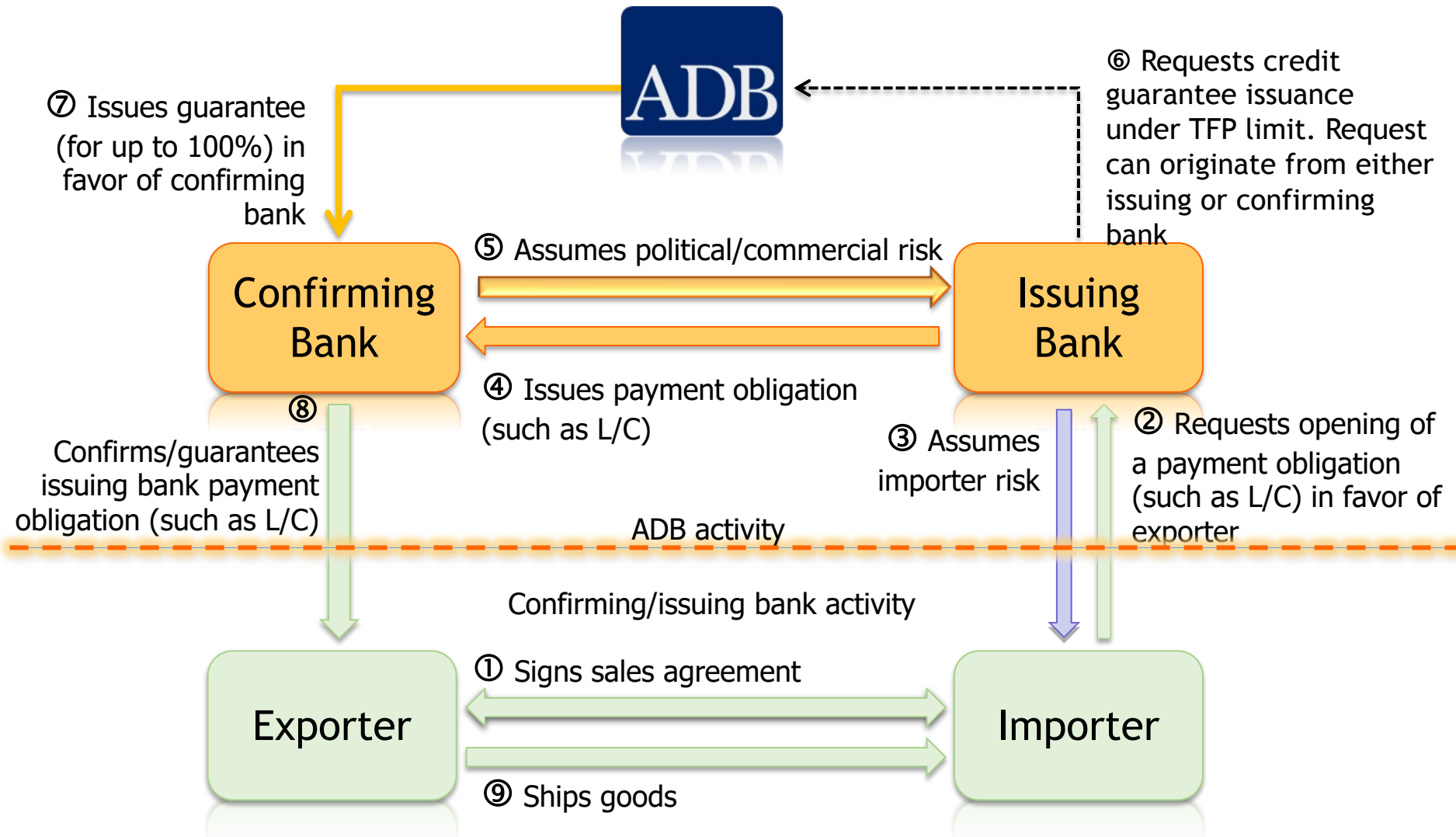
Risks

- Transactions generally undertaken on a WITH RECOURSE basis.
- Exposure to Bank & Country Risks if with recourse
- The Exporter's documents must **COMPLY** strictly with the terms and conditions of the Documentary Credit to ensure payments.

- A definite undertaking by the Exporters bank (at the request of issuing bank) to assume the obligations and liabilities of the issuing bank under the documentary credit.
- Payment to the Exporter will be made on a **WITHOUT RECOURSE BASIS.**
- Confirming Bank needs to have Bank & Country limits in order to confirm L/C.

ADB Credit Guarantee Product

ADB provides guarantees in **24-48 hours** to confirming banks covering up to 100% of non-payment risk.



- Stand-by LC (SBLC)
- Common Uses:
 - guarantee facilities
 - bid/performance bonds
 - support open account trading
- Red Clause LC
- Revolving LC
- Transferable LC
- Back-to-Back LC

Why are LCs best for customers?

- Can be used in many different situations – incredibly flexible
- Improve cash flow management, especially if with Usance LC terms
- Lower borrowing costs, especially in foreign currency
- Reduce risks, especially fraud
- Open-up new markets

A WIN/WIN SOLUTION!

Customers' Objectives Achieved!

- **Maximize cash flow** from international transactions by improving management of working capital
- **Speed up collection** of export receivables
- Get **longer supplier credit terms**
- **Minimize risk exposures** arising from international trade
- Secure solutions and **reduce risk of fraud**

SESSION # 6

TRADE LOANS – BASICS AND CASE STUDY

Roger Packham

ADB TSCFP



Trade Loans Growing with the Customer

Roger Packham

Consultant

March 2023

- A Trade Finance Loan is an advance in local or foreign currency enabling customers to finance trade commitments on a transactional basis. Trade Finance Loans will support transactions with an underlying flow of goods and/or services (can include Freight & Duties) and enables Importers and Exporters to obtain finance for their trade flows.

- Trade Loans are a specialized form of Working Capital Finance.
- Trade Finance Loans are not an all-purpose working capital tool such as an overdraft facility. It is individual loans that are created to support nominated trade flows for tenors that are aligned to the customers Cash Conversion Cycle for the goods being traded.

Trade Loan Applicability

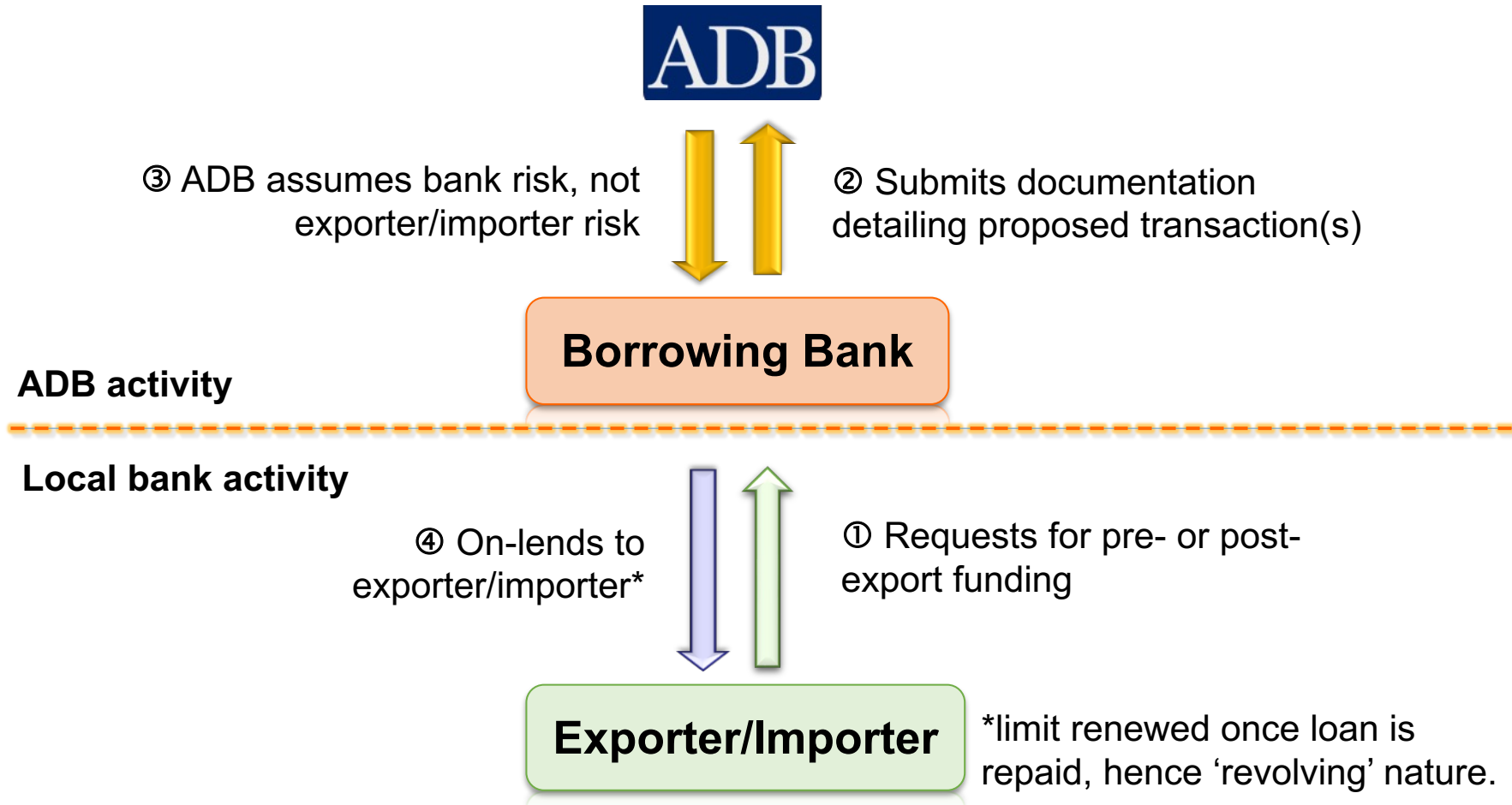
- Trade Loans can be used for either Imports or Exports.
- They can be used at any time during the Trade Cycle where a need for finance arises.
- For Imports they can be used to finance payments to suppliers, preferably via LC or Documentary Collection. However, financing of TTs or invoices is also common.
- It is important to control disbursement of funds to ensure correct use of funds & reduce risk of double financing.
- For Exports Trade Loans can be used for either pre-shipment or post-shipment financing.
- For pre-shipment they are often used to pay local supplies or finance the manufacturing cycle.
- Again, it is important to ensure correct use of funds & to make sure they are being used for the intended purpose.
- Post-shipment finance can be used to finance LCs (aka LC negotiations or LC discounting) or finance Export Documentary Collections. Financing of Open Account transactions or invoices is also common.

Trade Loans - Other Considerations

- Foreign Currency or Local Currency?
- The general rule is that for Imports Trade Loans can be taken in either FCY or LCY.
- For Exports Trade Loans are usually financed in the currency of the sales invoice (natural hedge) which is typically FCY.
- Often there is a strong incentive to borrow in FCY as the interest base rate is usually lower than the LCY base rate. ADB can provide FCY funding directly to Banks under the ADB TFP Credit Facility to enable banks to offer FCY Trade Loans.

TFP Revolving Credit Facility

ADB provides pre- and post-export financing through local banks.



Trade Loans - Other Considerations

- Interest. Fixed or Floating?
- Typically Trade Loans are offered on a fixed rate basis for the period of the loan. Only if the loan was extended would the interest rate be adjusted. There may also be a penalty or break cost for early repayment.
- Interest. In Advance or at Maturity?
- Typically, interest is collected in arrears upon repayment of the Trade Loan.

Trade Loans - Other Considerations

- Tenor? 30 days, 60 days, 90 days, max 180 days.
- Its important to match the maturity date of Trade Loan with the expected receipt of sales proceeds. You should also have control over the customers cash flow (trade transaction or operating account) so that there is no leakage of cash elsewhere.
- An example. Motor Vehicle importer purchases 30 vehicles from overseas. He expects to sell 10 vehicles per month for next 3 months. Shipment time is 60 days.
- Therefore, you should split payment into 3 Trade Loans with maturity of 90, 120 & 150 days.

Trade Loans Summary

- Importers doing business with overseas companies find Trade Finance Loans beneficial as they can finance their imports for a period of time while their goods convert into cash if their supplier is requesting prompt payment, or the importer needs funding to help produce their goods for a growing amount of contracts.
- Exporters can utilize Trade Finance Loans to bridge the gap between when they have shipped the goods to when they receive payment, when they are able to finance the purchase of raw materials and repay when they receive payment from the buyer.

Advantages of this Approach

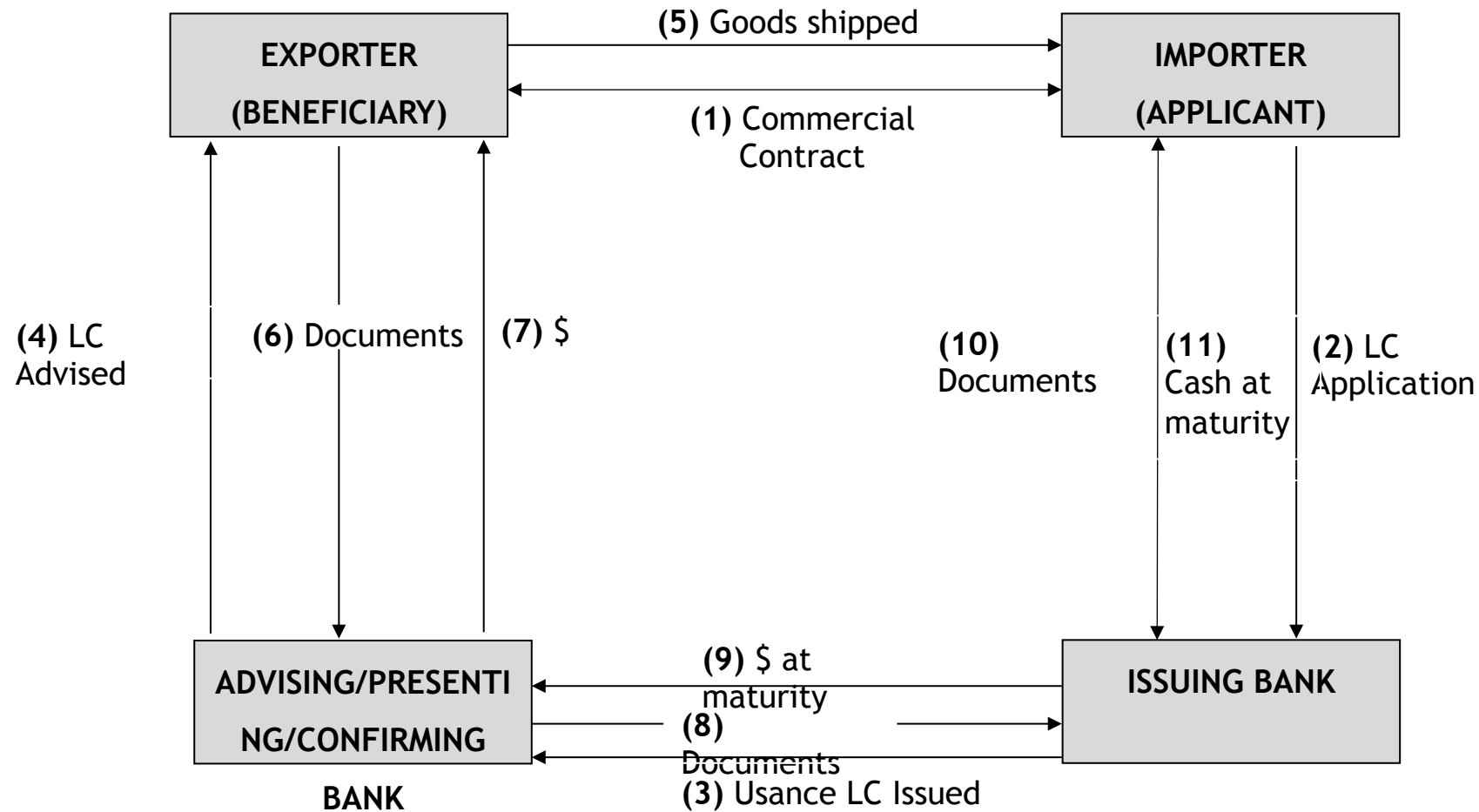
- High Visibility
- Generally Priced below Overdraft
- Opportunity to lend/borrow in FCY
- More Disciplined Approach
- Bank should have more Credit Appetite
- For Customer more Working Capital/More Trade/
- Grow Sales/More Profits
- As Sales Increase Facility Increases
- Reduces Risk of Fraud

- Improves Cash Flow Management especially if Usance LC terms are used
- Lower Borrowing Costs especially if borrowing in FCY
- Reduces Risk of Fraud
- Opens up New Markets when combined with LCs

A WIN/WIN SOLUTION!

Usance Documentary Credits (L/Cs)

An Alternative to Trade Finance



Usance LCs – An alternative to Trade Loans

- LC issued with a Usance Period up to 180 days in some cases 360 days
- LC can be confirmed if required under ADB TFP Program
- Beneficiary has option to request Negotiating/Confirming Bank to discount LC and Pay at Sight. Interest is for account of beneficiary
- Interest costs likely to be much lower than borrowing/financing in LCY.
- If applicant finances as a Trade Loan this would reflect as direct bank borrowing and financial ratios would reflect same
- If applicant uses a Usance LC then this would be reflected as Trade Creditors and financial ratios would reflect same
- If Usance Payable at Sight (UPAS) LC used, then Nominated Bank would pay beneficiary at sight and interest costs would be charged back to Issuing Bank
- With Usance/UPAS LCs need to guard against risk of **Double (Excess) Finance**. Should only be undertaken when LCs call for Original documents. Tenor should reflect Trade Cycle.

Thank you.

SESSION # 7

BANK GUARANTEES AND STANDBY LETTERS OF CREDIT

Vincent O'Brien

ICC

- **Bank Guarantees & Standby Letters of Credit**
 - Types of Guarantees & Standby Letters of Credit
 - Counter Guarantees / Guarantees issued by Local banks
 - Applicable rules and practice



Bank Guarantees

What is a Guarantee?

- A Guarantee is an undertaking
 - Given by one party (the Guarantor)
 - To another party (the Beneficiary)
 - To stand behind specific obligations (current & future)
 - Of a Third party (The Principal / Applicant)
- In effect the Guarantor agrees to compensate the Beneficiary for loss – up to a specified amount – when the Principal defaults or fails to fulfil his obligations specified in the Guarantee
- Bank Guarantees cover Non Performance. If there is a claim then something has gone wrong. Legal disputes are not uncommon to try and estop payments being made by banks

Bank guarantees are...

- Independent undertakings
- Irrevocable
- Unconditional?
- An independent undertaking from a bank (Guarantor)
- Assurance to the Beneficiary whereby the bank (Guarantor) replaces the client's (Principal's) credit worthiness
- Payable on demand - on presentation of a written demand OR written demand and documents by the Beneficiary as per the terms & conditions of the guarantee

Financial Guarantees:

- Provide security for financial obligations
- Trigger event is:
 - Non-payment in case of 'Financial Performance' contracts
- Payment of amounts due under a:
 - Promissory Note
 - Bill of Exchange
 - Purchase Contract

Non Financial Guarantees:

- Provide security for non-financial obligations
- Trigger event is:
 - 'non-financial' in nature as in:
 - Failure in Supplier Performance (of goods)
 - obligation in a sales contract

Types: Based on Purpose

- Registration Guarantee / Bid bond / Tender bond
- Performance bond
- Advance payment Guarantee
- Retention bond
- Warranty bond
- Customs bond
- Shipping Guarantee
- Collateral Guarantees

Types: Direct or Indirect

Direct Guarantees:

- Demand Guarantee Issued directly to the beneficiary by a Bank

OR

- Demand Guarantee Issued directly to the beneficiary however sent through an advising Bank



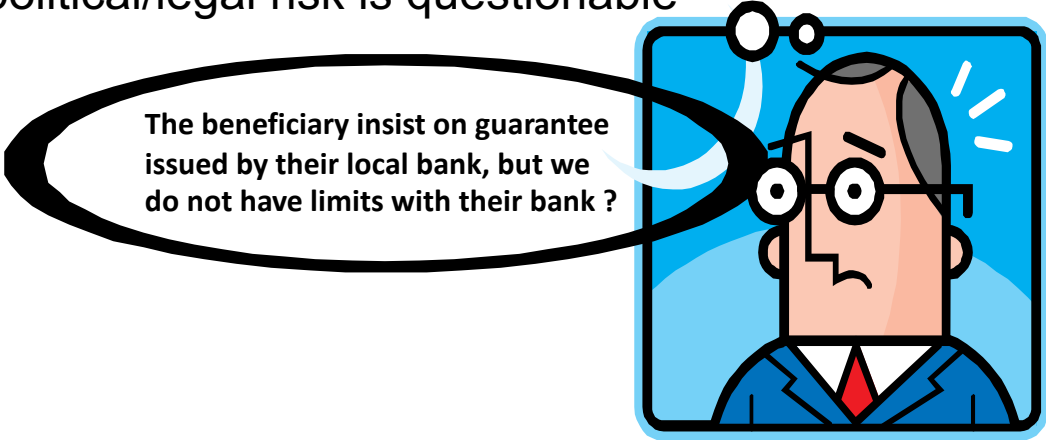
Indirect Guarantees:

- Counter Guarantee Issued to the correspondent Bank, requesting them to (re)issue a Demand Guarantee directly to the beneficiary.



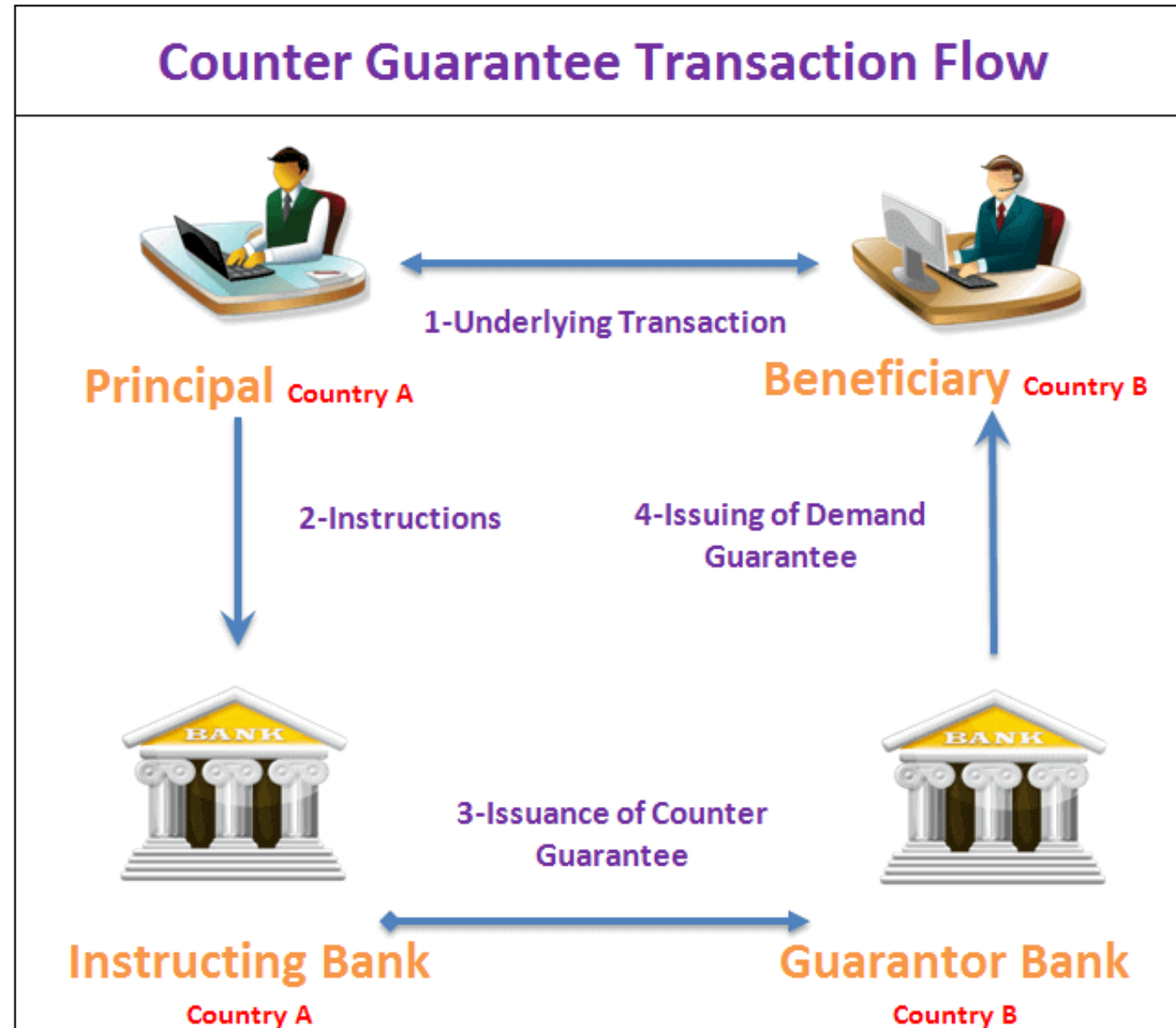
At times beneficiary may insist on issuance of a local bank guarantee. Usually when:

- Beneficiary is a Government or ministry OR
- The underlying contract is a Government linked contract OR
- Local regulations in Beneficiary's country
- There are concerns re Applicant's bank's credit standing OR
- Applicant bank is less well known
- Applicant's country/political/legal risk is questionable



The beneficiary insist on guarantee issued by their local bank, but we do not have limits with their bank ?

Counter Guarantee



Applicable Rules for Demand Guarantees



Guarantee Text: Things to watch out for

A Guarantee can be broken down into 4 parts

- **Part I**
 - Applicant details
 - Beneficiary Details
 - Underlying Relationship details
- **Part II**
 - Guarantor's undertaking to pay
 - Limits of the undertaking – amount, expiry, etc
- **Part III**
 - Requirement for a demand
 - Other documentary requirements
- **Part IV**
 - Standard disclaimers and clauses
 - Governing Rules/Law. ISP98 or URDG758





Modern Default Protection Instruments



- History of guarantees is traced back to the Oil Boom in 1970's
- Middle Eastern countries were flushed with money
- Every country wanted its own Airport, Hospital, Schools etc..
- Tenders were being awarded to all sorts of companies
- Some companies were not even capable of starting the works, let alone to finish it.

**GUARANTEES EXPANDED
TO COVER POSSIBLE
DEFAULTS or NON PERFORMANCE**



Use of Guarantees in Different Sectors

- Construction
- Pharmaceuticals
- Telecommunication
- Financial
- Government Infrastructure
- Extraction and Mining

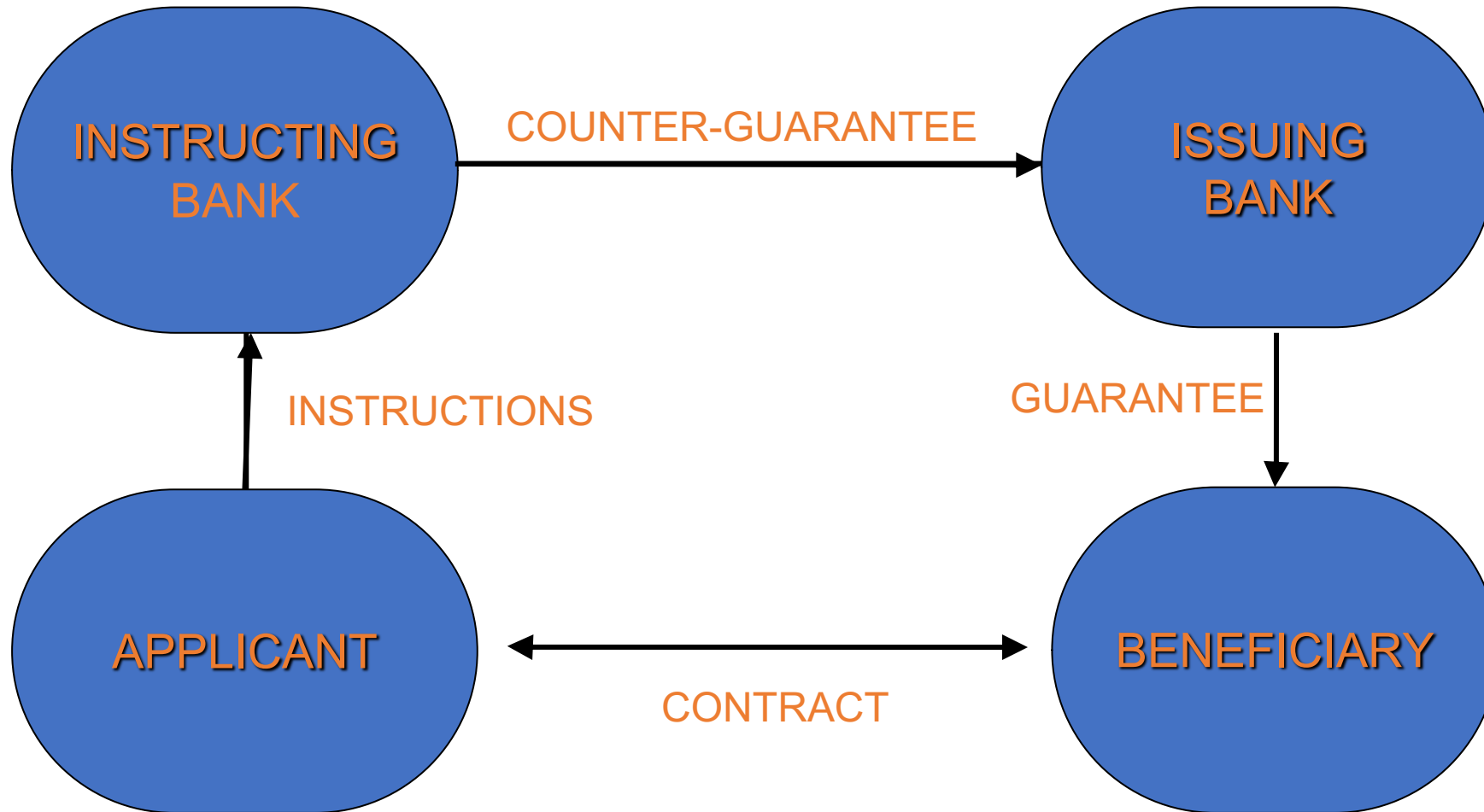


.....Guarantees usage globally is increasing drastically!

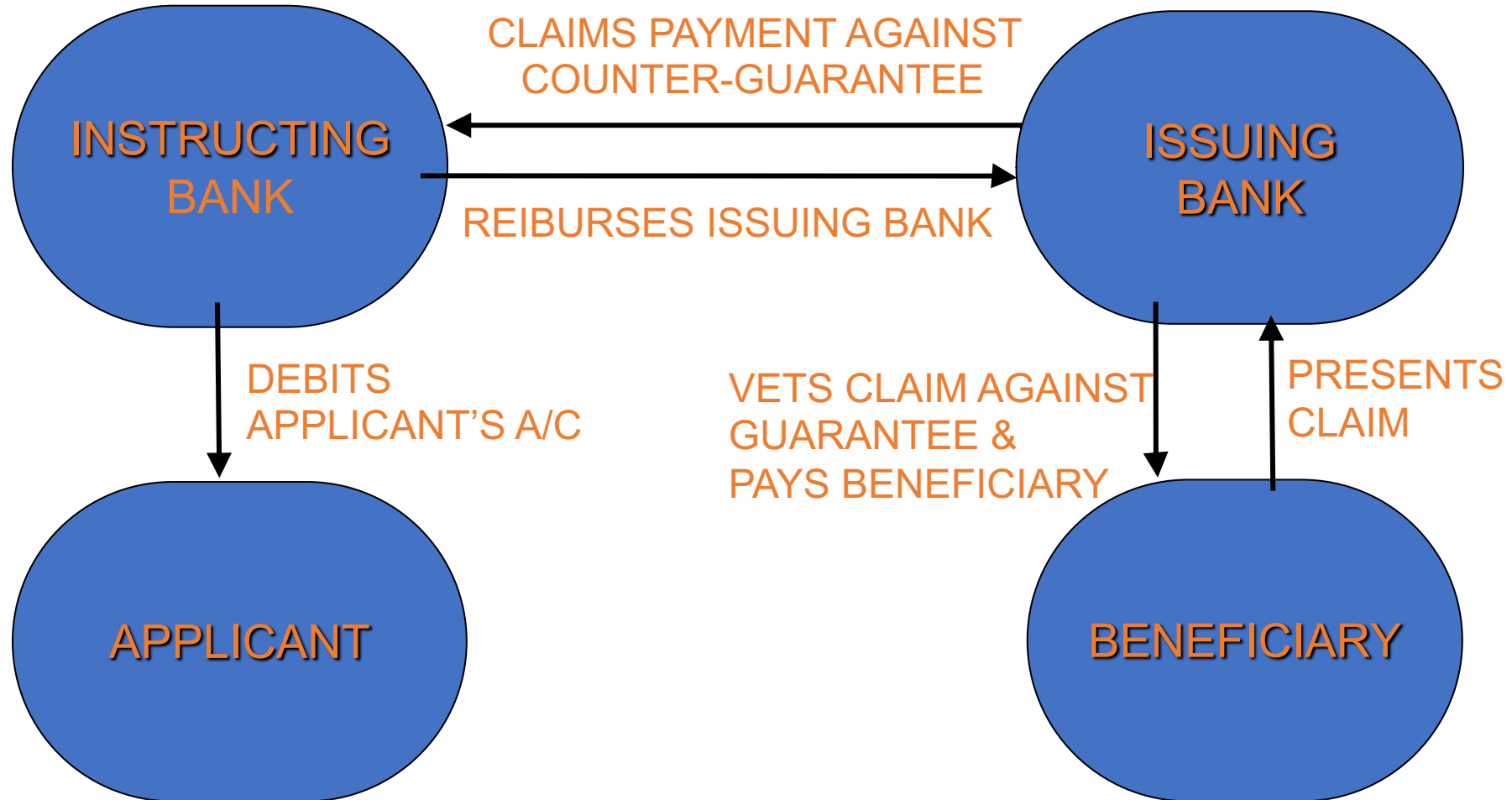
Most Frequently Used Guarantees in Trade

- Bid Bonds (Tender Guarantee)
- Performance Guarantee
- Advance Payment Guarantee
- Customs Guarantee
- Planning Authority Guarantee
- Credit Facility Guarantee
- Judicial Award Guarantee

Indirect Guarantees

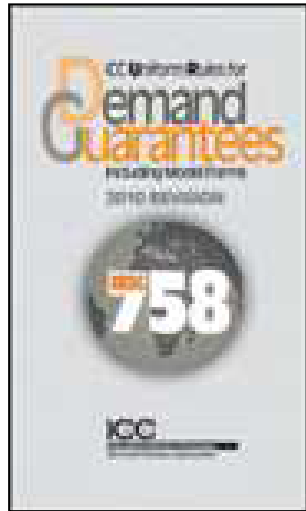


Claim Under an Indirect Guarantees



The URDG758 Team





Article 1 Application Of URDG

- a. The Uniform Rules for Demand Guarantees (“URDG”) apply to any demand guarantee or counter-guarantee ***that expressly indicates it is subject to them.*** They are binding on all parties to the demand guarantee or counter-guarantee except so far as the demand guarantee or counter-guarantee ***modifies or excludes them.***

3 W.I.F.T. Letter of Credit in favour of Jordan Heavy Industry
4 issued by First Bank of Japan, Tokyo, Japan.

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Article 14– Presentation

A presentation shall be made to the guarantor:

- i. at the place of issue, or such other place as is specified in the guarantee and,***
- ii. on or before expiry.***

Article 19 – Examination

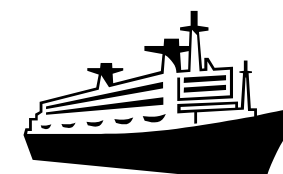
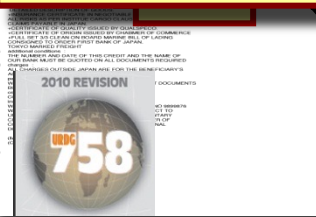
- a. The guarantor shall determine, on the basis of a presentation alone, whether it appears on its face to be a complying presentation.***

ARTICLE 19 - EXAMINATION

Article 19 – Examination

a. The guarantor shall determine, on the basis of a presentation alone, whether it appears on its face to be a complying presentation.

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Article 20 – Time for examination of demand – payment.

- a. If a presentation of a demand does not indicate that it is to be completed later, the guarantor **shall within five business days** following the day of **presentation, examine that demand and determine if it is a complying demand**. This period is not shortened or otherwise affected by the expiry of the guarantee on or after the date of presentation. However, if the presentation indicates that it is to be completed later, it need not be examined until it is completed.

Article 20 – Time for examination of demand – payment.

When the guarantor determines that a demand is complying, it shall pay.

MINI CASE MONGOLIA – Read it ... Read it ...Read it?

BIG BUYER IN MONGOLIA IS CONTRACTING WITH LARGE CONSTRUCTION CONTRACTOR FROM OVERSEAS TO DEVELOP COAL MINE.

OVERSEAS CONTRACTOR HAS TO PROVIDE ADVANCE PAYMENT STANDBY LC FOR 10% OF CONTRACT VALUE SO VERY LARGE BANK IN OVERSEAS COUNTRY ISSUES ADVANCE PAYMENT STANDBY IN FAVOUR OF BUYER. "EVERYBODY - - - - -"

STANDBY LC HAS OPERATIVE CLAUSE *'This standby LC becomes operative on payment of USD 5Million on account number 002020212 of overseas contractor with bank for agriculture in CERTAIN CITY'*

What happened ...what went very very wrong?

Article 34 – Governing Law

Unless otherwise provided in the guarantee, its governing law shall be that of the location of the guarantor's branch or office that issued the guarantee.

Unless otherwise provided in the counter-guarantee, its governing law shall be that of the location of the counter-guarantor's branch or office that issued the counter-guarantee.

Article 35 – Jurisdiction

- a. Unless otherwise provided in the guarantee, any dispute between the guarantor and the beneficiary relating to the guarantee ***shall be settled exclusively by the competent court*** of the country of the location of the guarantor's branch or office that issued the guarantee.
- b. Unless otherwise provided in the counter-guarantee, any dispute between the counter-guarantor and the guarantor relating to the counter-guarantee shall be settled exclusively by the competent court of the country of the location of the counter-guarantor's branch or office that issued the counter-guarantee.

Thank you.



Making global trade and supply chains **inclusive**, **green**,
resilient, **transparent**, and **socially responsible**.

DAY 2: 23 March 2023

Workshop on Traditional Trade Finance Products



22-23 MARCH 2023



**HYATT REGENCY,
PHNOM PENH, CAMBODIA**

SESSION # 1

HOW TO ESTABLISH A SUCCESSFUL TRADE FINANCE BUSINESS

Roger Packham
ADB TSCFP

Trade, trade-related policies and international agreements are addressed explicitly in **seven of the 17 Sustainable Development Goals (SDGs)**.

BUT

What are the Benefits of Trade Finance to a Bank?

Trade Finance Benefits to Banks

- Core Product/Establish Prime Bank Status
- Acquire New Customers
- Revenue/Fee Income
- Capital Efficient
- X sell Opportunities
- Reduces Risk of Fraud
- Early Warning Signals
- Low Risk (Six's)

Why Trade Finance is Low Risk

- ✓ Security
- ✓ Short Term
- ✓ Self Liquidating
- ✓ Size & Spread of Risk
- ✓ Selective
- ✓ Specific

Because of these low-risk characteristics, banks favor Trade Finance over other forms of Working Capital.

Key Components for Success

- Product Range & Target Market Alignment
- Strong Trade Operations & Infrastructure
- Effective Sales Model

If you don't have all 3 in place, your trade business will struggle at best and will never reach its full potential.

The 3-legged stool!

Objective to become Prime Relationship Bank

Using Trade as Core of Relationship or as prime Entrée Point

- SME Opportunity. Sweet Spot 69% of HSBC, 45% of Citibank Trade Revenues from this segment
- Aim to capture at least 50% share of clients wallet
- Improve facility/risk weighting through use of Trade Products & goods as security
- Average Facility Size USD1mio
- Client Requirements Low/Medium Risk Trade Products & small O/D
- Credit Analysis - More focus on Trade Cycle/structuring/repayment source and less on Balance Sheet or Security

- Stand-by LC
- Red Clause LC
- Revolving LC
- Transferable LC
- Back-to-Back LC
- Bank Guarantees
- Documentary Collections
- Supply Chain Products

Minimum knowledge level

Which Sales Model Works Best?

- Relationship Management lead
- Specialist Trade Sales
 - Supporting RMs
 - Dedicated Trade Sales
 - Operations Sales Support

Key Success factor Strong Product knowledge

Trade Finance Sales Model Adding Value!

- Transport Documents (Security & Control over Goods)
- Incoterms
- With or Without Recourse Finance
- Generating positive cash flow
- Reducing Risks
- Reducing Costs

Need to demonstrate benefits to clients

- Identify Target Market/Customers
- Set Targets = Double Trade Revenues in 3 years?
- What needs to be in place?
 - Products
 - Resources
 - Credit Support
- Effective Sales Model in place. Setting People up for success
- Specialist Credit Programs (e.g., Supplier Finance, Industry niche focus e.g., Rice or Coffee)

Set appropriate Targets & KPIs

Developing a Business Plan

Activity	How to measure?	How Often?
Revenue		
Sales Pipeline		
Client Calling		
Asset Levels		
Transaction Volumes		
Deals Won		
Expenses/Net Income		
Speed of Deal Closure		
Average Deal Size		
Account Plans		
Deal of the Month!		

Before putting a Trade Facility in place, you need to be able to answer these basic questions:

- What For?
- Hong Long?
- How Much?

Solution is Trade Cycle Analysis.

TRADE FACILITIES What For?

Import Facilities

- **Documentary Credits (L/Cs) - Sight and Usance**
- **Post Import Finance Trade Loans**
- Shipping Guarantees
- Avalisation
- Distributor Finance (SCF)
- Payables Finance (SCF)

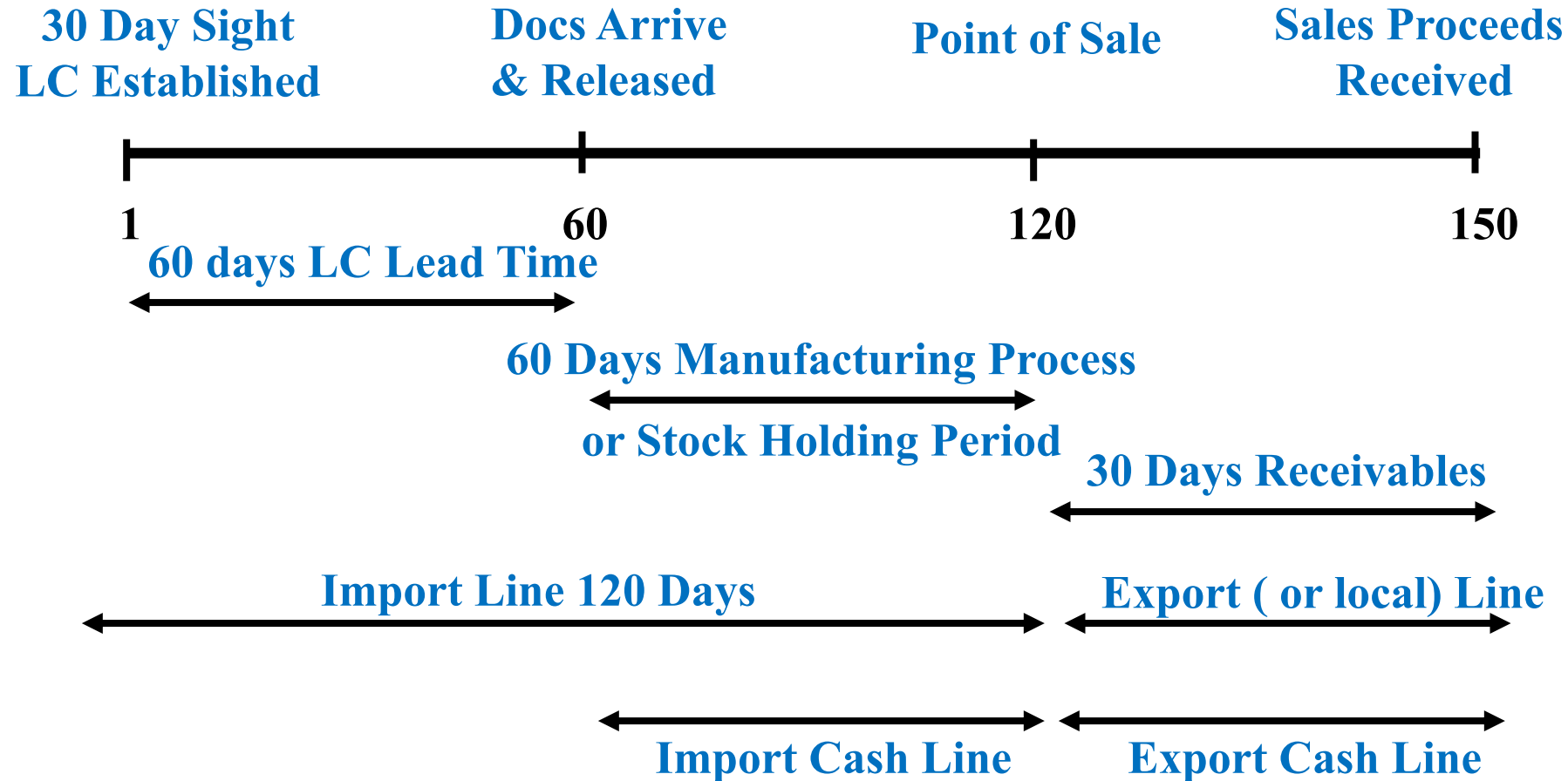
Export Facilities

- **Pre Shipment Finance**
 - **Packing Credits**
 - Red Clause Credits (Facility?)
- **Post Shipment Finance**
 - **Letter of Credit Negotiations/Confirmations (Discounting)**
 - Export Bills for Collection – Purchase
 - Forfaiting
 - Factoring
 - Receivables Finance (SCF)

Other Products

- Back to Back LC's
- Transferable LC's (Facility?)
- Standby LC's (Credit/Capital Weighting?)
- Bid/Performance Bonds – SBLC/Guarantees

Trade Cycle How Long & How Much?



Information required to Calculate Facility Amount

- Annual Sales Turnover
- Gross Profit Margin
- Cost of Goods Sold
- Annual Purchases (Raw Materials or Finished Products)
- Suppliers Payment Methods & Credit Terms
- Stock Holding Periods or Manufacturing Cycle
- Buyers Payment Methods & Credit Terms

Information required to Calculate Facility Amount

- Annual Sales Turnover **(3mpa)**
- Gross Profit Margin **(20%)**
- Cost of Goods Sold **(80%)**
- Annual Purchases (Raw Materials or Finished Products) **(50% of COGS)**
- Suppliers Payment Methods & Credit Terms **(given LC 30 Days Sight)**
- Stock Holding Periods or Manufacturing Cycle **(given 60 days)**
- Buyers Payment Methods & Credit Terms **(given 30 days)**

Calculation of Facility Amount

- Import Facility.
- Annual Purchases 30 Day Sight LC (Usance LC)
- Stock Holding (Trade Finance Loan for XX days)

TOTAL IMPORT LINE =

- Export Line (or Domestic Sales)
- Annual Sales. Credit Terms 30 days

TOTAL EXPORT LINE =

Calculation of Facility Amount

- Import Facility.
- Annual Purchases 30 Day Sight LC (Usance LC)
- L/C $1.2\text{m} \times 90\text{days}$ (60 days Lead time & 30 days Usance) $90/360 = 300\text{k}$
- Stock Holding (Trade Finance Loan for XX days)
- Import Trade Loan $1.2\text{m} \times 30\text{days}$ (Stock Period less 30 days supplier credit) = 100k
maximum tenor 30 days

TOTAL IMPORT LINE = 400k

- Export Line (or Domestic Sales)
- Annual Sales. Credit Terms 30 days
- Sales $3\text{m} \times 30\text{days}/360 = 250\text{k}$

TOTAL EXPORT LINE = 250k

Advantages of this Approach

- Transparency over goods/services financed
- Generally Priced below Overdraft
- Opportunity to lend/borrow in FCY
- More Disciplined Approach
- Bank should have more Credit Appetite
- As Sales Increase Facility Increases
- For Customer more Working Capital/More Trade/
- Grow Sales/More Profits
- Reduces Risk of Fraud

Thank you.

SESSION # 2

PANEL DISCUSSION

Moderator:

Roberto Leva
ADB TSCFP

Panelists:

- **Do Thanh Hang**, Vice President Trade Operations Center, BIDV
- **Nakarin Sakorn**, First Vice President, Financial Institute Relationship Management, Kasikorn Bank
- **Sarah Nguyen**, Director, Head of Correspondent Banking, Standard Chartered Bank Vietnam

SESSION # 3

TRADE SALES AND BUSINESS DEVELOPMENT

Roger Packham

ADB TSCFP

Vincent O'Brien

ICC

Trade Finance versus Overdraft

- Transactional Financing
- Underlying flow of Goods
- Can only be used for Trade
- Transparency. Supporting Trade/Commercial documents required
- Controlled disbursements
- Can be in LCY or FCY
- Generally priced below Overdraft
- Generally fixed interest rate
- Repayment aligned to cash conversion/trade cycle

Import Facilities

- **Documentary Credits (L/Cs) - Sight and Usance**
- **Post Import Finance Trade Loans**
- Shipping Guarantees
- Avalisation
- Distributor Finance (SCF)
- Payables Finance (SCF)

Export Facilities

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 - Red Clause Credits (Facility?)
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 - Letter of Credit Negotiations/Confirmations
 - Export Bills for Collection – Purchase
 - Forfaiting / Factoring
 - Receivables Finance (SCF)

Packing Credit Advances

Generally made against Export LC/ PO

- Maximum of 70% of the LC's Value
- LC issuing bank & country limit availability
- Beneficiary's track record is undoubted
- Bank retains the original LC
- LC advised and Restricted/Available with your Bank
- Is the LC Applicant related to the Beneficiary?
- Are any of the raw materials/components for the good to be imported?
- Security/Inspection of the Goods
- Control payments to suppliers

Export Post Shipment Finance LC Discounting

- Documents need to be **fully compliant**, no discrepancies
- Can offer credit terms to buyers
- Discounting LCs in FCY lower interest rates
- No FX Risk
- FCY potential USD, JPY, EUR, GBP, RMB, AUD, NZD, INR
- **Funding via ADB TFP**
- Generally, uses Bank lines as opposed to customer lines
- Non-payment risk is on Issuing Bank, not buyer
- Exporter has bank & country risk
- Finance can be with or without recourse
- If Without Recourse can treat as cash into balance sheet
- LC Confirmation provides without recourse finance
- **LC could be confirmed using ADB TFP**
- Potential to structure forfaiting transaction for large one, longer tenor transactions

- Improves Cash Flow Management especially if Usance LC terms are used
- Lower Borrowing Costs especially if borrowing in FCY
- Banks more willing to lend
- Opens up New Markets when combined with LCs
- Reduces Risk of Fraud
- Helps manage Risk

Risks Factors to be Considered

- Fraud
- Credit Risk
- Operational Risk
- Compliance Risk (AML, KYC, CFT, Sanctions, Dangerous Goods, prohibited goods)
- Reputational Risk (including discrimination, racial, religious, exploitation)
- Environmental Risk
- Bank & Country Risk
- Counterparty Risk
- Foreign Exchange Risk

Advantages of this Approach

- Transparency over goods/services financed
- Generally Priced below Overdraft
- Opportunity to lend/borrow in FCY
- More Disciplined Approach
- Bank should have more Credit Appetite
- As Sales Increase Facility Increases
- For Customer more Working Capital/More Trade/
- Grow Sales/More Profits
- Reduces Risk of Fraud

SESSION # 4

SUPPLY CHAIN FINANCE

Vincent O'Brien

ICC

Aparna Soni Bhalla

ADB TSCFP

Azeem Jamshed Azmi

CIMB Bank

Supply Chain Finance

Foundations!
...are
....important!

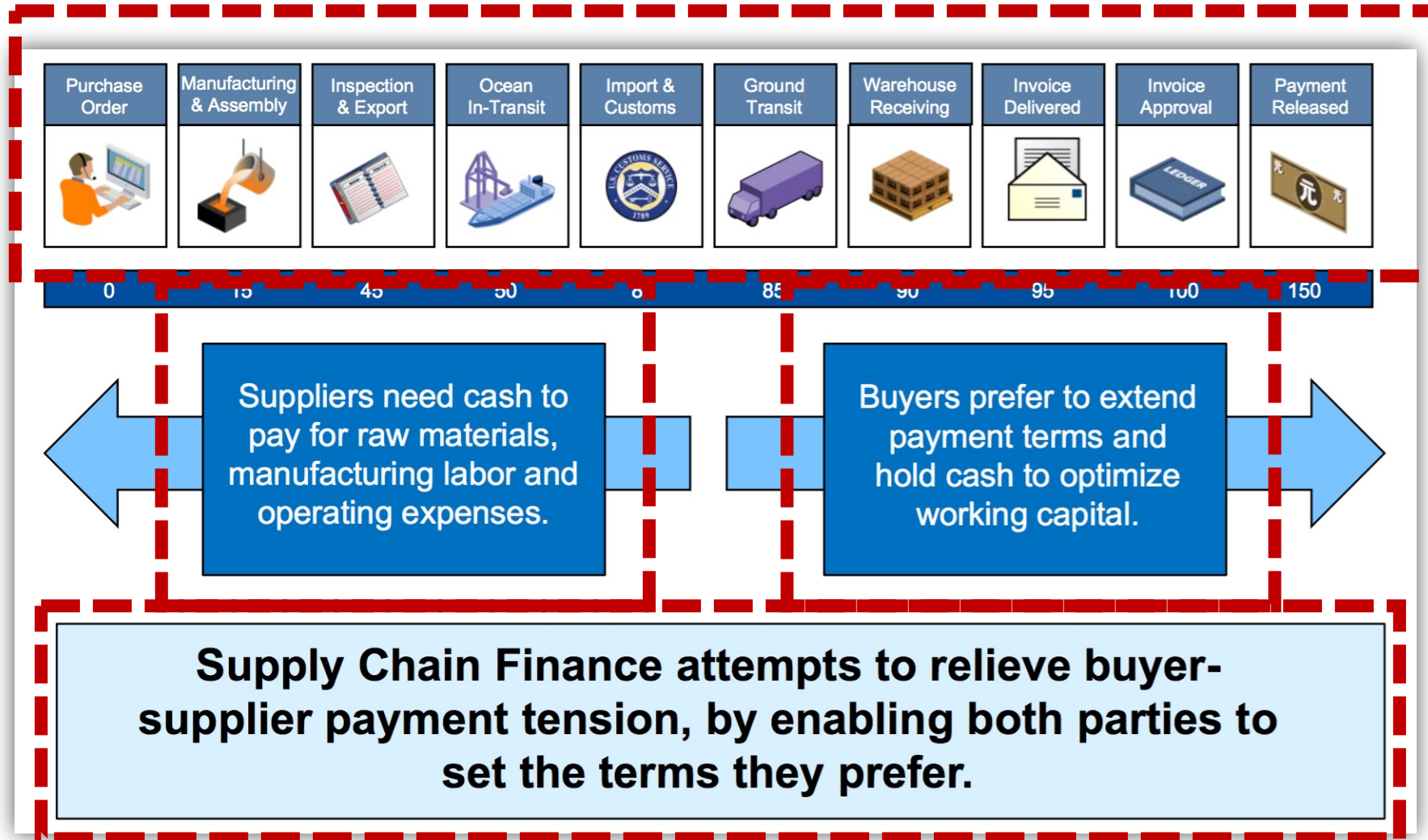
**THINK ABOUT THE
CUSTOMER!**

**Who is the
customer!**

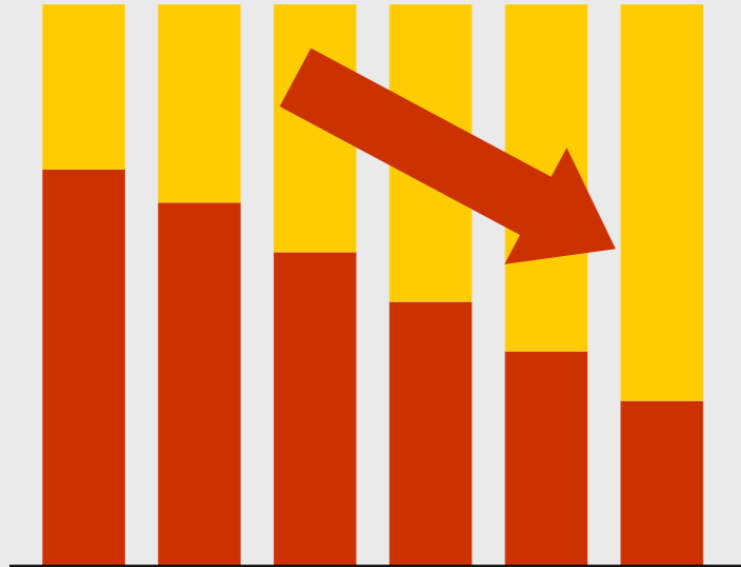


**In SCF think
about
BIG BUYERS IN
ADVANCED
ECONOMIES
&
SMALL SELLERS
IN EMERGING
ECONOMIES**

Supply Chain Finance



Declining Use of Bank Instruments for International Settlement



Letter of Credit



Open Account

Open Account

- Supplier offers credit to buyer with no bank guarantee of payment
- Less formal structure for disputes or missed payments
- Risk shifts from buyer to supplier in a transaction

Market Drivers for Open Account

- International trade transactions between are becoming more common as global export/imports boom
- Suppliers have established long-standing relationships with international buyers
- Less expensive, complex and time consuming than letter of credit

Supply Chain Finance



Supply Chain Finance Benefits

A Win-Win-Win Scenario for All Participants

Supplier

- Immediate access to cash
- Reduced DSOs
- Improved cash flow visibility
- Lower financing costs
- No debt on balance sheet

Buyer

- Lower cost of goods sold
- Lower supply chain risk
- Longer DPOs
- Use financial strength as competitive advantage

Bank

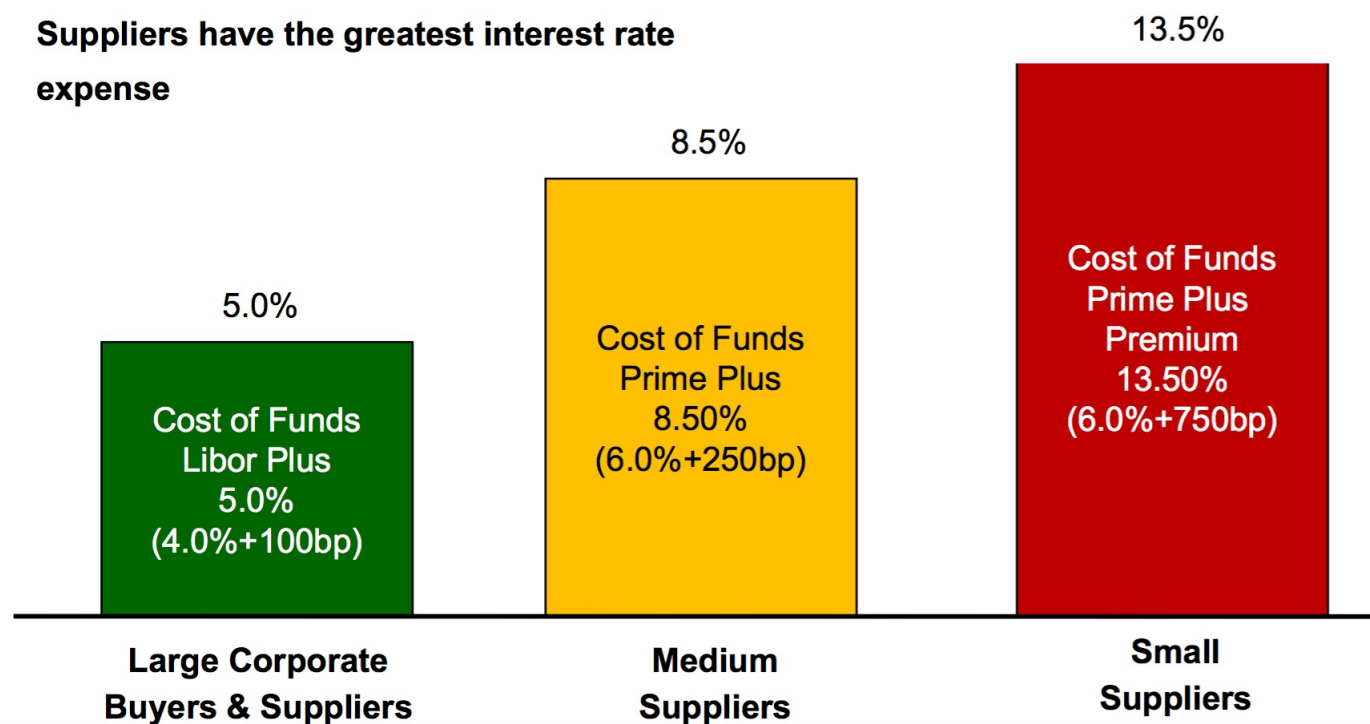
- Re-intermediation into supply chains even open account
- Income from financing
- New customers – suppliers who gain financing
- Cross-sell opportunities

Costs and Risks are lowered in the supply chain

Working Capital optimized for all parties

Supplier Segmentation by Credit Rating

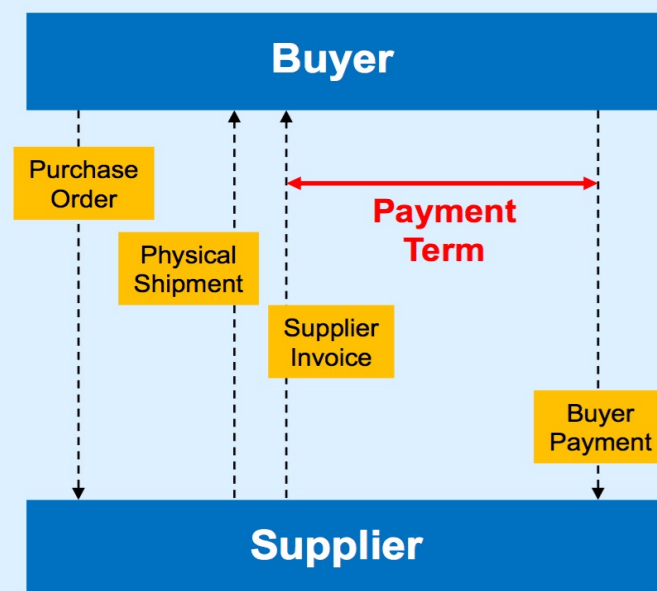
Cost of Working Capital = Small to Medium Suppliers have the greatest interest rate expense



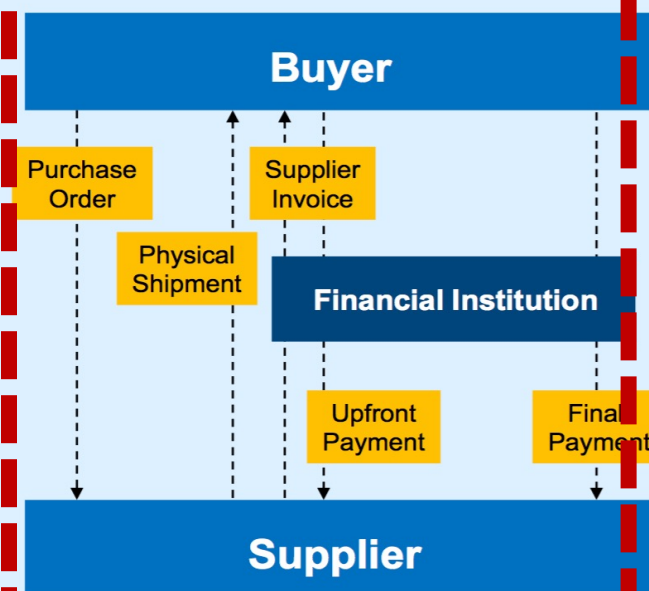
Factoring Receivables

Supplier Initiated Early Payment Program

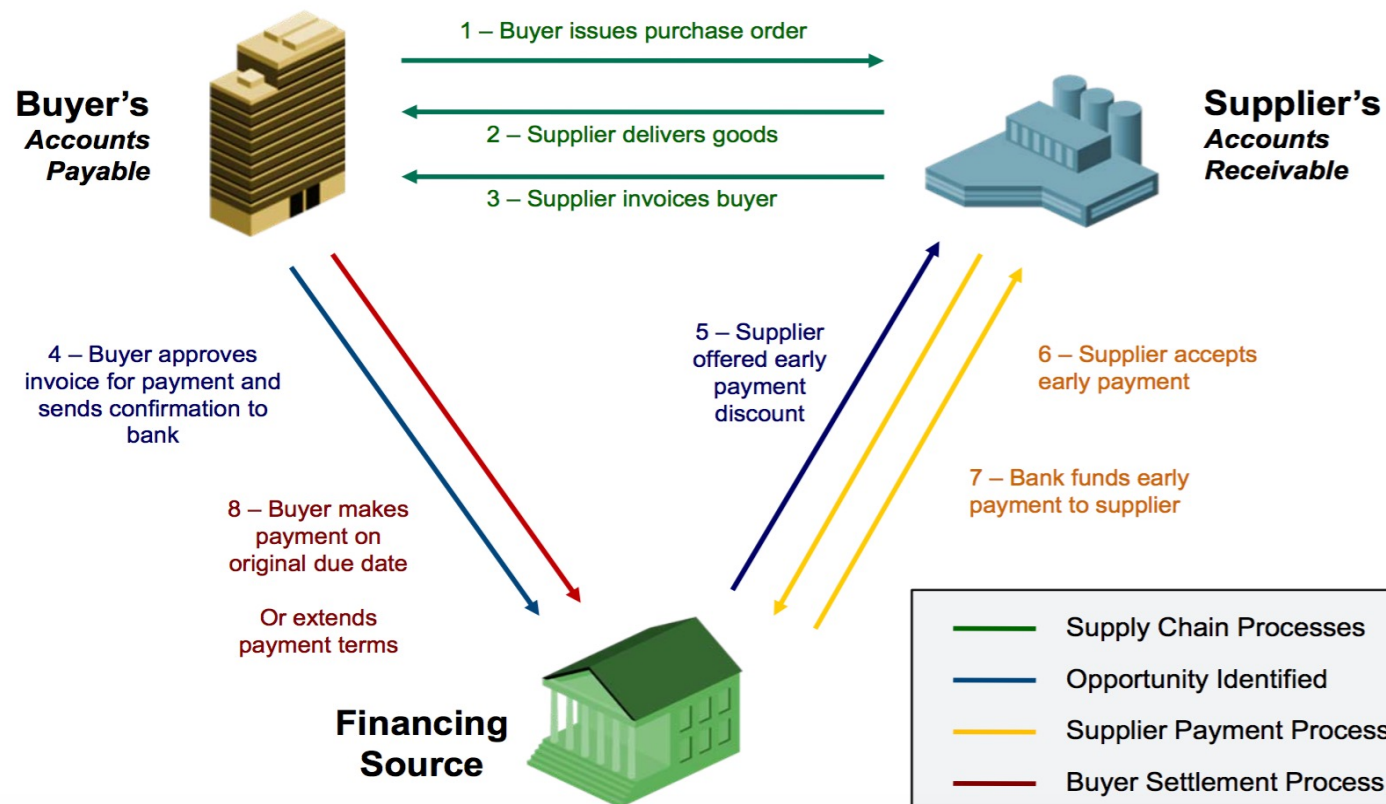
Normal Accounts Receivable Process



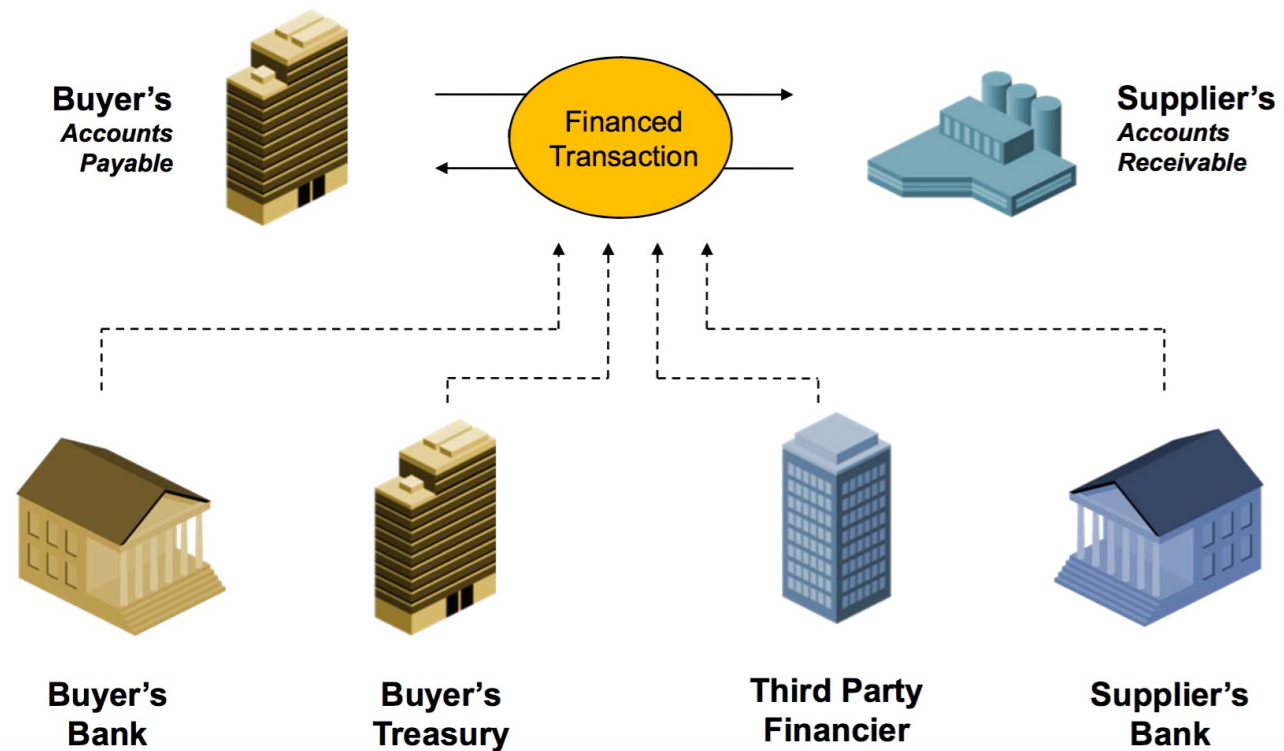
Accounts Receivable with Factoring



Supply Chain Finance Example

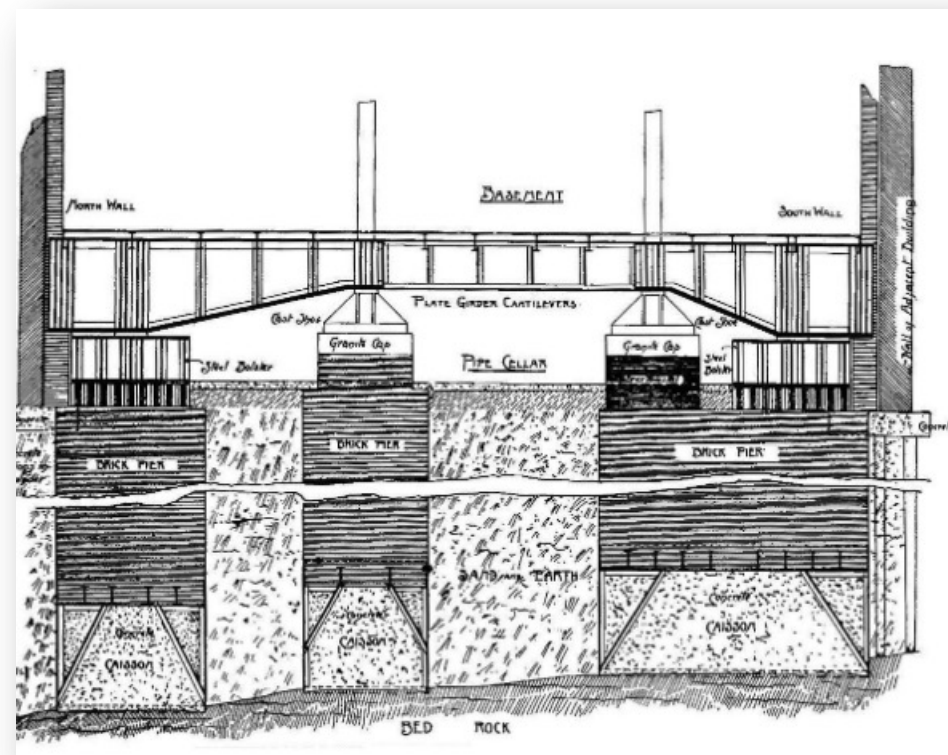


Multiple Funding Options



Supply Chain Finance

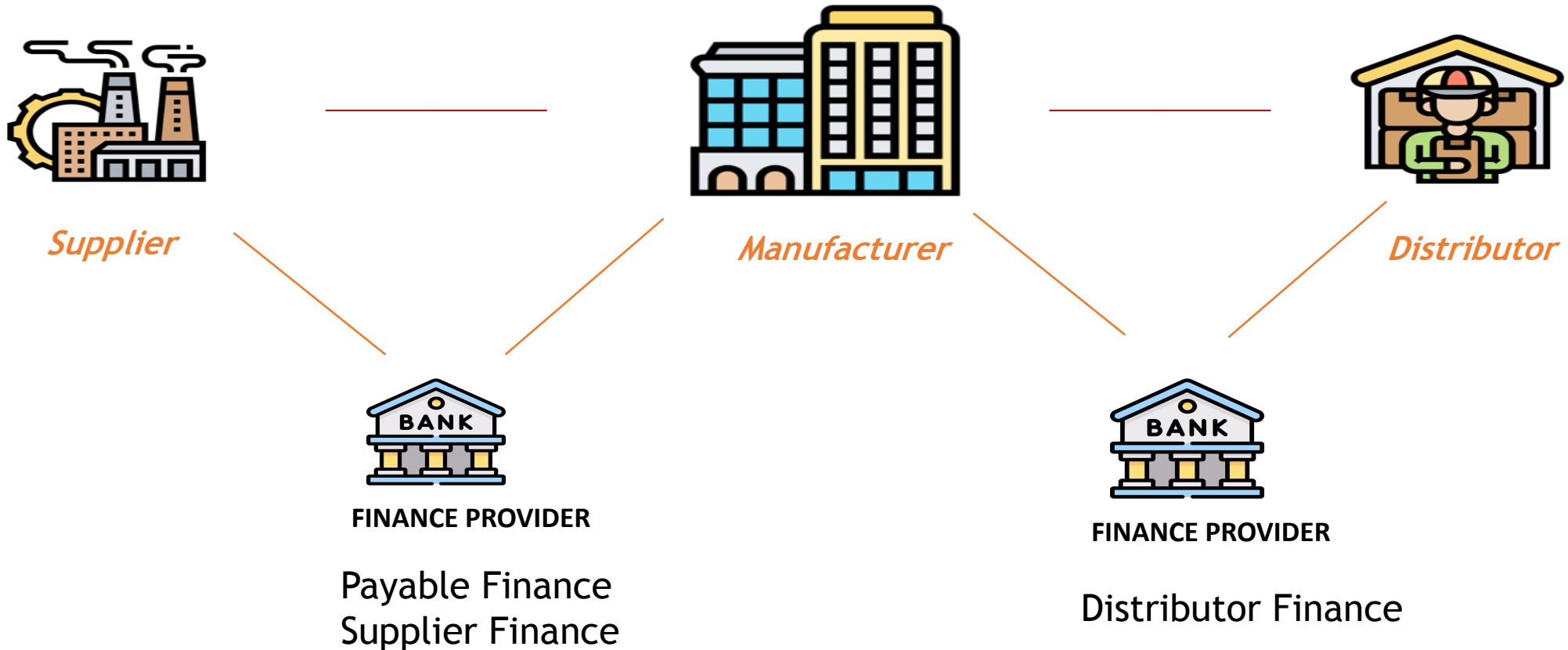
*Foundations!
...are
.....important!*



What's in it for Bankers?

- Value proposition offering to large corporate
- Increases stickiness to banks
- Access to newer SMEs
- Increased returns
- Better monitoring of corporate and SMEs
- Cross sell

Supply Chain Finance



- Understanding of the product
- SCF System/ Platform
- Enabling regulatory framework
- Access to corporates/ SMEs

Do we need to wait for all of this to be in place?

Supply Chain Finance Development Strategy

Awareness Deepening



Provision of tailor-made webinars and/or e-training on SCF;

Regulatory support



Collaborate with regulators and governments to bridge regulatory gaps

SCF Capacity Development TA



Provision of intense and targeted technical support to banks to build a SCF business;

Risk Participation



After completion of intense TA, onboarding of DMC bank as SCFP PFI.

- Cambodian law: Security Transaction Act – early mover – 2007
- Low adoption reasons:
 - Low awareness
 - Lack of implementing guidelines
 - Absence of suitable infrastructure
 - No clarity on enforcement procedures
 - Debtor's approval required before enforcing the security in the collateral, opening the door to abuse of their protective rights by the debtor.

- Survey of the banks to assess current state of supply chain finance
- Presentation to Ministry on the gaps in the current laws
- Comparison with international best practices and UNCITRAL model law
- Recommended action plans

- Sub decrees
- Implementation guidelines
- Solicit feedback
- Awareness and training for various stakeholders

Supply Chain Finance Development Strategy

Awareness Deepening



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Collaborate with regulators and governments to bridge regulatory gaps

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ADB Trade and Supply Chain Workshop Phnom Penh

Azeem Azmi

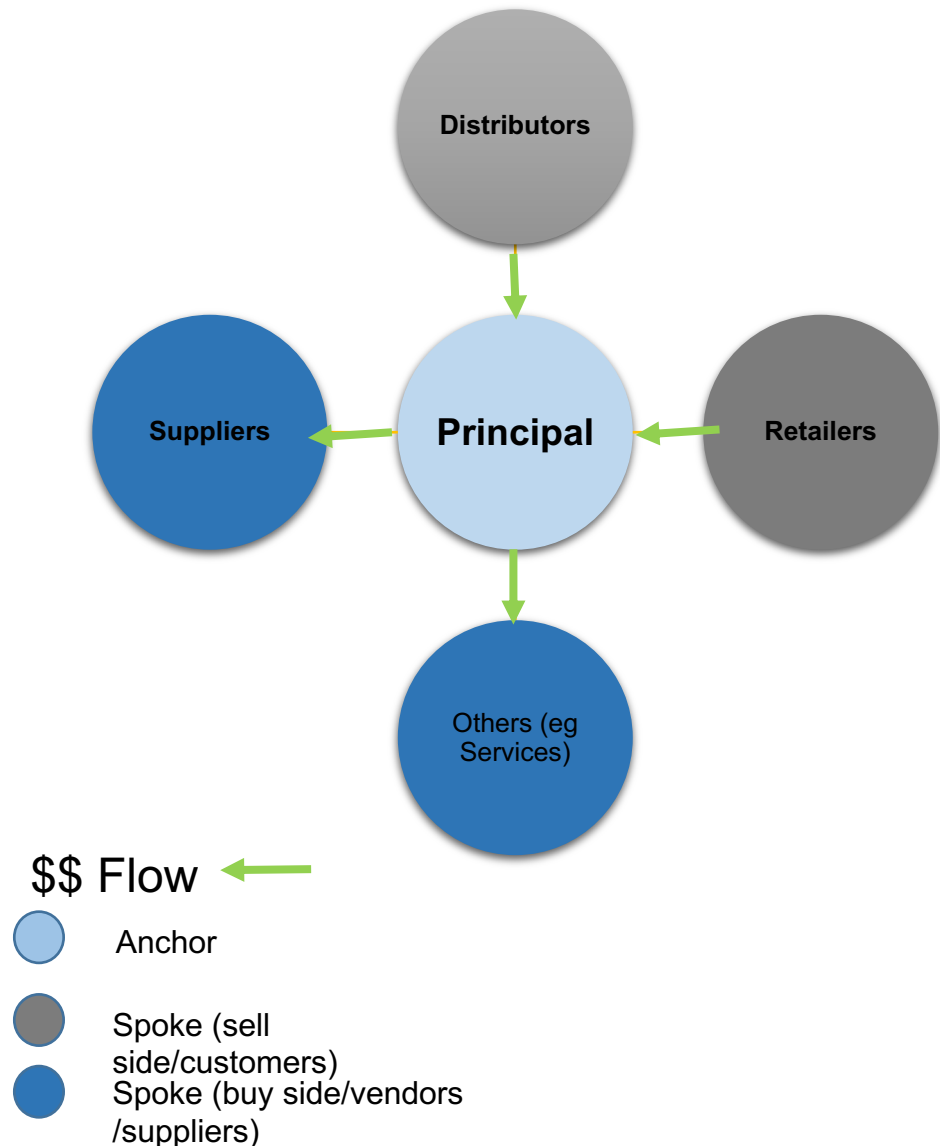
23 March 2023



ASEAN Trade - Overview

- Total Asean Trade is sizeable and growing.
- Significant % of GDP
- Large contribution of SME's and mid market companies.
- Trade Financing has traditionally been focused on cross border and documentary credits based products and instruments.
- Open account financing is generally bilateral and based largely on overall obligor risk assessment.
- Access to credit for the smaller companies remains a key ask. Traditional credit analysis is time consuming and often not optimal.
- Domestic trade financing is often collateralized and not working capital focused/differentiated.
- Banks continue to evaluate risk mitigation, establish program based lending solutions which are 'sticky' and capture repeat business.

Supply Chain / Value Chain / Ecosystem Finance – A Differentiated approach



SC /VC /EF - Key Objectives.

- Program based approach structured around Principal (large, well established, reputed players in the market)
- Target providing financing/risk mitigation solutions to spokes on both the buy and sell side for normal course of business activities (production/manufacturing, sales).
- Establish program eligibility criteria based on relationship between principal and its spokes such as:
 - Length and nature of relationship
 - History /track record.
 - Specific controls / conditions
- Faster turnaround time. Enhanced obligor and program credit profile.

Supply Chain / Value Chain / Ecosystem Finance Program Benefits

Suppliers

Post shipment working capital

Preferential financing terms
(pricing, collateral)

Principal

Enhanced Relationships

Supply Chain
Continuity/Efficiency

Balance Sheet Management
DSO/DPO Optimization

Risk Management

Enhanced Sales

Distributors

Easier access to working
capital /tenor management

Preferential financing terms
(pricing/collateral)

Sales / Inventory optimization

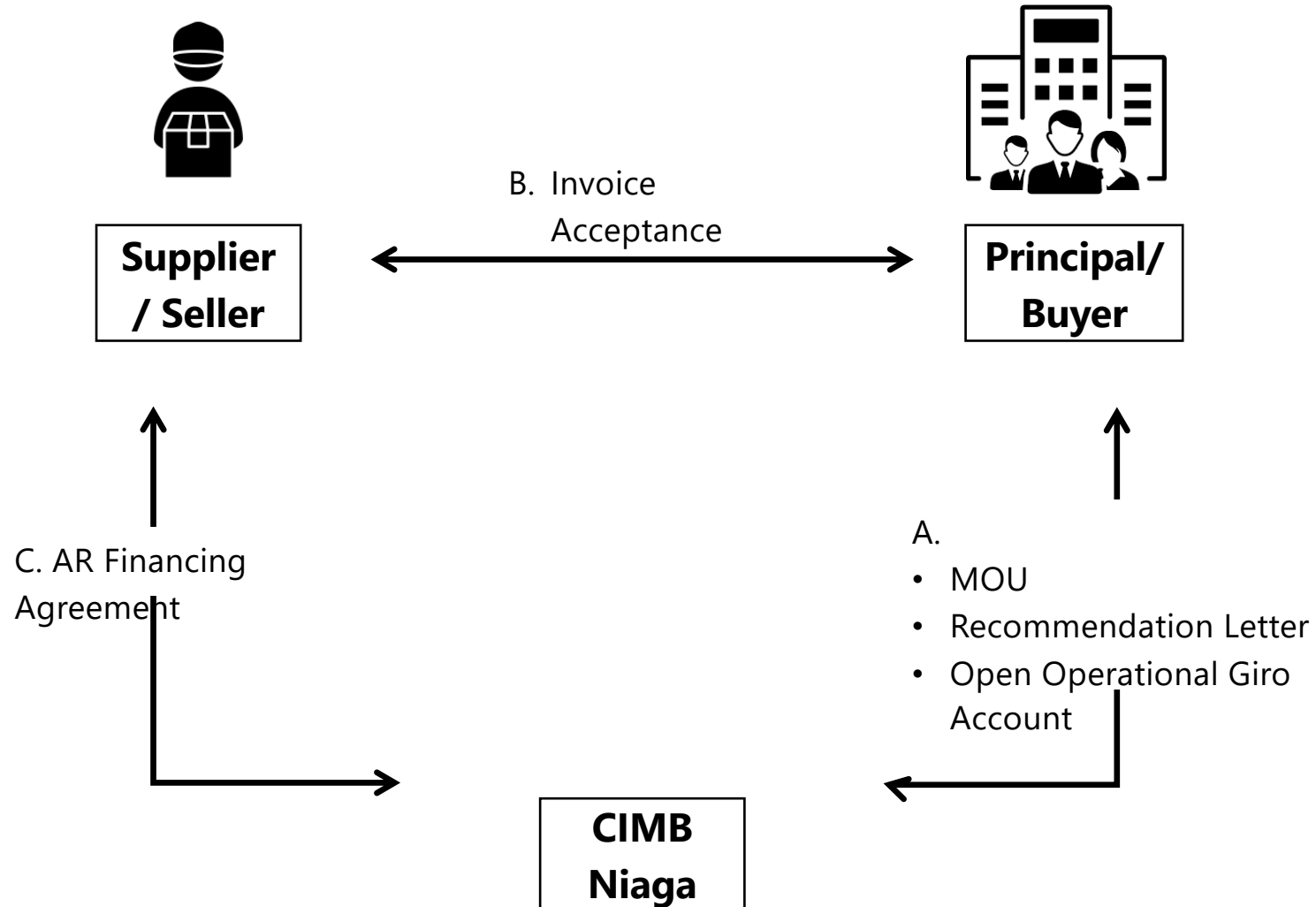
Key Enablers / Dependencies

Enablers	Supplier Finance Programs	Distributor Finance Programs
Credit	Medium - Low	High
Relationship with Principal	High	Medium - Low
Technology/Platform	Medium - High	Medium - High
Portfolio Management	Low	Medium - High

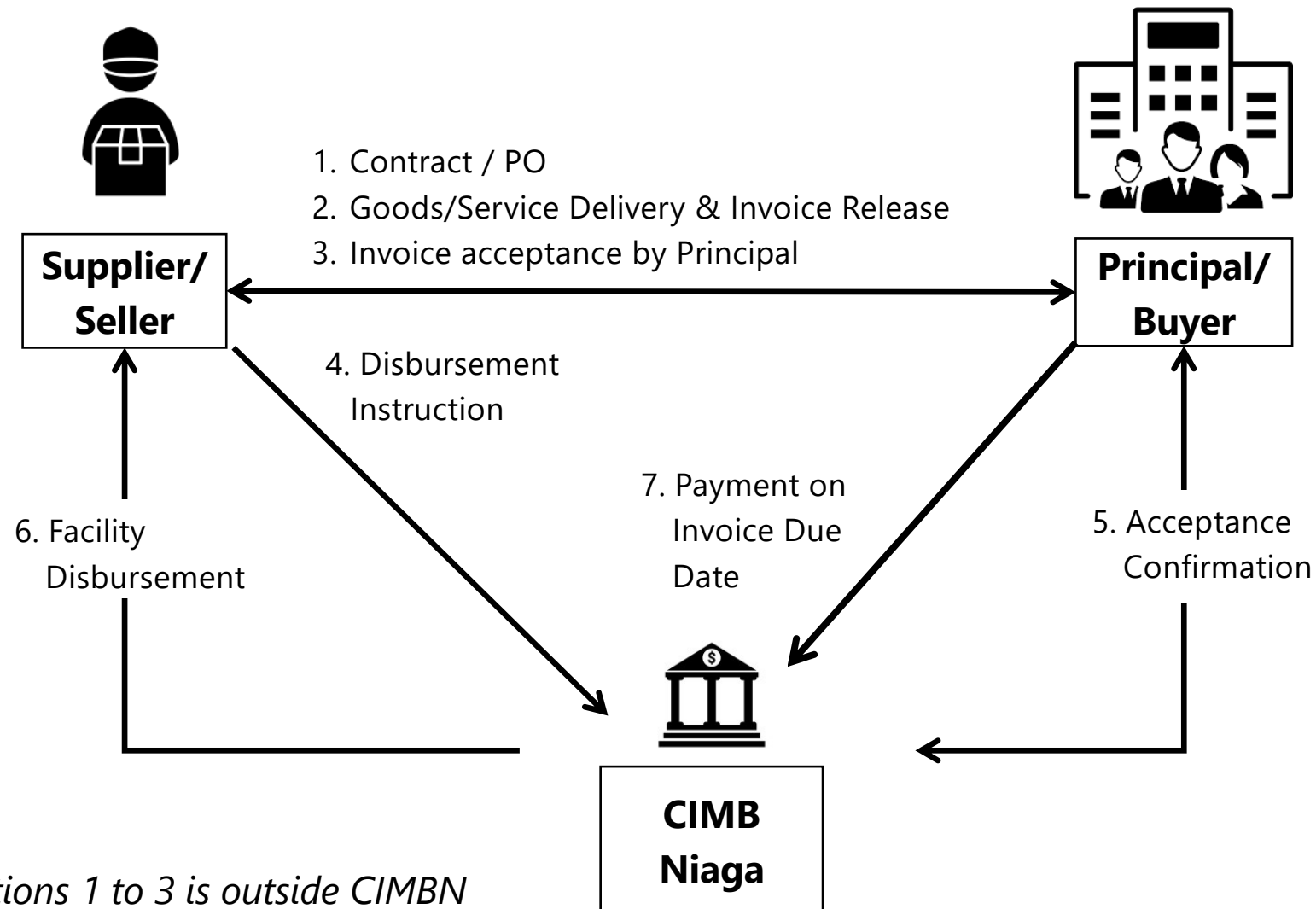
Typical CIMB Programs

- Currently Indonesia and Malaysia Focused.
- Principal Industries are FMCG, Manufacturing, Automotive

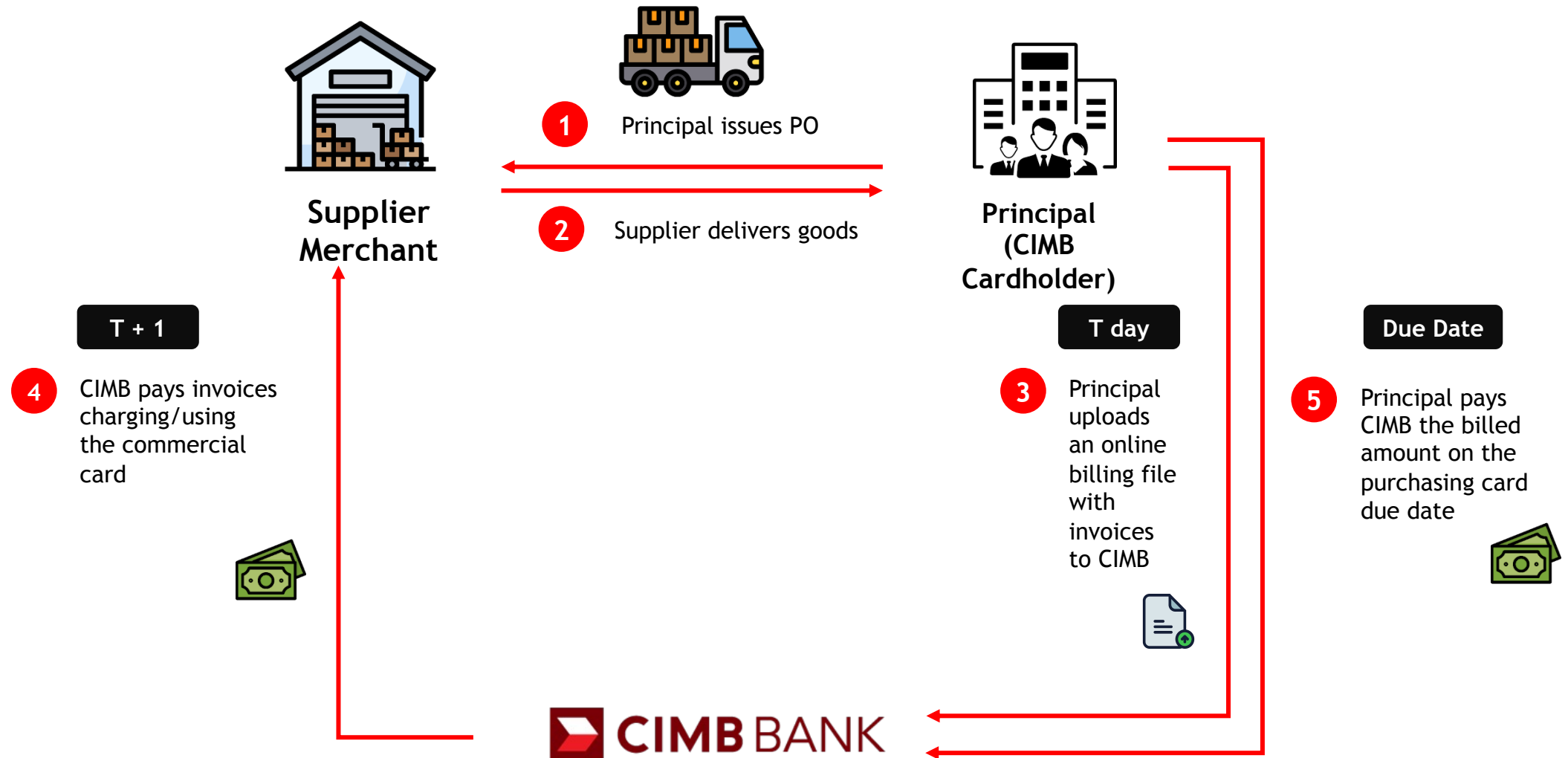
Supplier Financing Flow



Supplier Financing Flow

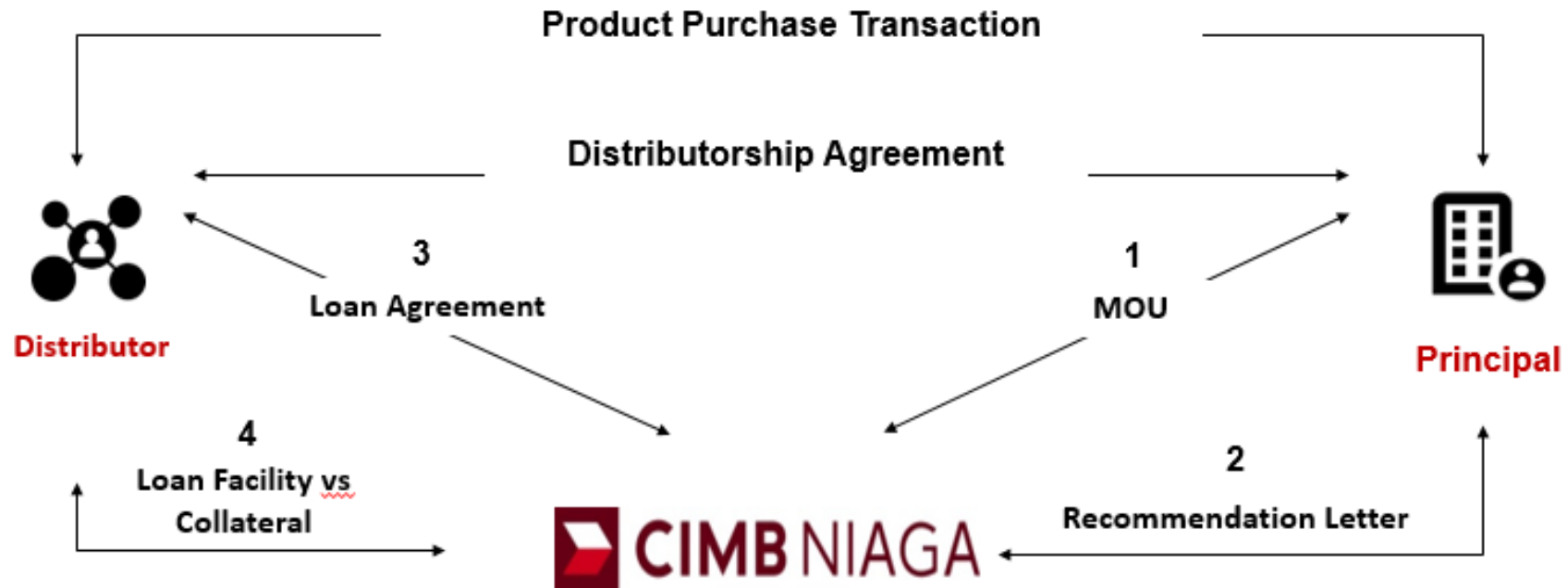


Supplier Financing Using Commercial Cards



Distributor Financing - Flow

DISTRIBUTOR FINANCING FLOW



Key Challenges

- Long Sales Cycle. Multiple stakeholder engagement required at principal end (Finance, Treasury, Sales, Shared Services).
- Market Infrastructure. Supplier Finance Programs key success factor is substituting supplier risk with principal risk. Perfection of structure requires an irrevocable payment undertaking and possibly a receivable purchase agreement.
- Program success is generally dependent on high frequency small to medium ticket size transactions. Technology based platforms to originate and process increasingly become important.
- Balance sheet management / treatment for principals needs to be carefully evaluated – This is generally an accounting rather than bank domain expertise.

SESSION # 5

WORKSHOP / CASE STUDIES

Roger Packham

ADB TSCFP

Vincent O'Brien

ICC

Case Study: Bank Guarantees

Direct or Indirect Guarantees

Bank Guarantee Case Study

- Finmeccanica (30% owned by Italian Govt) sold 12 VIP helicopters to the Indian Govt. Indian Govt was required to pay EUR256m in stages, in advance, to supplier in Italy (Finmeccanica).
- The contract required Advance Payment Guarantees (APG), Payment Guarantees (PG) and Warranty Guarantees (WG) totalling EUR256m as security for advance payments from Finmeccanica's bank (Deutsche Bank, Italy).

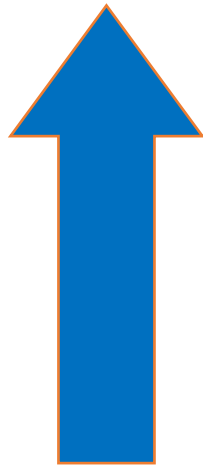
Required

- What types of Guarantee would you recommend?
 - If you were Finmeccanica's banker (Export side)?
 - If you were advising the Indian Government (Import side)?

Types: Direct or Indirect?

Direct Guarantees:

- Demand Guarantee Issued directly to the beneficiary by a Bank
 - OR
- Demand Guarantee Issued directly to the beneficiary sent through an advising Bank



Indirect Guarantees:

- Counter Guarantee Issued to the correspondent Bank, requesting them to (re)issue a Demand Guarantee directly to the beneficiary.



■ WHAT HAPPENED NEXT?

- The APG and PGs were issued by Deutsche Bank Milan direct to Indian Govt (buyer/beneficiary). The warranty bond was issued by Deutsche Bank Frankfurt but reissued locally by the State Bank of India (SBI).
- The Indian Govt called all the Guarantees in late 2013, when it was alleged that Finmeccanica won the contract by using inappropriate means.

■ WHAT HAPPENED NEXT?

- Only the SBI warranty bond was paid out (c.EUR37m) as that was issued by SBI - see link <http://www.flightglobal.com/news/articles/new-delhi-lashes-out-at-italian-aw101-bank-guarantee-397164/>. The APGs/PGs were not paid out as they were Issued directly into India by Deutsche Milan and the Italian Court issued a court order that blocked the pay-out under Italian law as Finmeccanica sought an injunction.
- The Indian Govt then had to go through the court system in Italy to try and claim the monies owed to them under the APGs & PGs and eventually received payment after a long and expensive legal process. Refer <http://in.reuters.com/article/2014/06/11/finmeccanica-india-chopper-deal-idINKBN0EM0TO20140611>.
- **The lesson that the Indian Govt learned? Get all APG/PGs reissued by a local bank. Do not accept Direct Guarantees.**
- **If it had been the other way around (Indian Court system rather than Italian) they could still be waiting. It is not uncommon for court cases in India to take decades!**

Case Study: Pre-Shipment Finance

Supported by ADB RCF Facility

Pacific Success Story



TFP AWARDS 2019 TRADE DEAL OF THE YEAR

Samoa Commercial Bank



This transaction – a \$26,000 equivalent for export of cocoa beans from Samoa to New Zealand - may seem too small and traditional to be the winner of the 2019 Trade Deal of the Year, but it actually represents a major milestone. This is the first pre-export loan denominated in New Zealand Dollars in the Samoan market this millennia, and the first ever by a local Samoan bank. This winning deal was chosen from among TFP's 80+ partner banks and more than 4,500 transactions from July 2018 - June 2019.

This is also significant from a development perspective as it supports small local community growers of cocoa to get paid sooner, and so encourage investments in their plantations in a sustainable and environmentally-friendly way. This deal, which has been duplicated numerous times, provides much needed economic stimulus to the micro-economy of the outer Pacific islands where the cocoa is grown.

Encouraging exports and reducing dependency on remittances and donor aid is a major objective of the Samoan Government. This transaction represents an important step in that direction.

In the photo (from left to right): Can Sutken, ADB Relationship Manager; Steven Beck, ADB Head of Trade and Supply Chain Finance; Lemalu Ray Ah Liki, Managing Director of SCB; Ioane Maletino Kaisa, Assistant Manager - International Trade Services of SCB; and Roger Packham, ADB Relationship Manager. Photo taken on 3 September 2019 in Singapore at the 5th TFP Awards and Partners Dinner.

Know Your Products

Transferable versus Back-to-Back LCs

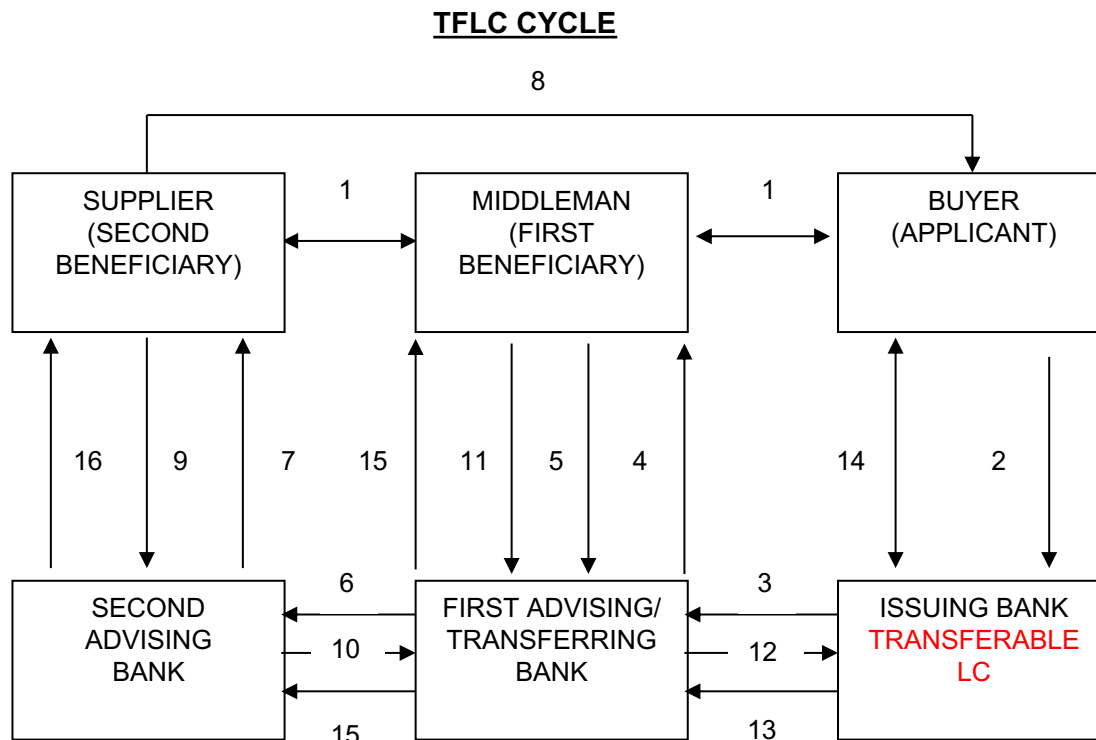
Which works best?

- A Transferable Documentary Credit (TFLC) is one that can be transferred by the original (first) beneficiary to one or more second beneficiaries.
- Typically used when the first beneficiary does not supply the merchandise, but is a middleman and wishes to transfer part, or all, of his rights and obligations to the actual supplier/s, who will be the second beneficiary/ies.
- Shipment of goods is directly from the second beneficiary to the TFLC applicant.

- TFLC's must comply with UCP 600 Art 38, which defines the rights and obligations of the various parties.
- A TFLC can be transferred only on the terms and conditions specified in the original LC, with the exception of:
 - Amount
 - Unit Price
 - Expiry Date
 - Period of Presentation
 - Shipment Date
 - *any or all of which may be reduced or curtailed.* In addition,
 - Insurance % may be increased
 - Name of the applicant can be substituted for that of the middleman

- The transfer is effected on the written instructions of the first beneficiary by the transferring bank. The Transferred LC is simply an advice and **does not constitute any obligation on the part of the Transferring Bank** unless the original LC was confirmed by that bank. The transferring bank does not, therefore require a credit limit to transfer a LC.
- Normally payment is only made by the Transferring Bank to the first and second beneficiaries upon receipt of proceeds from the Issuing Bank, effectively mitigating risk further.

Transferable LC Cycle



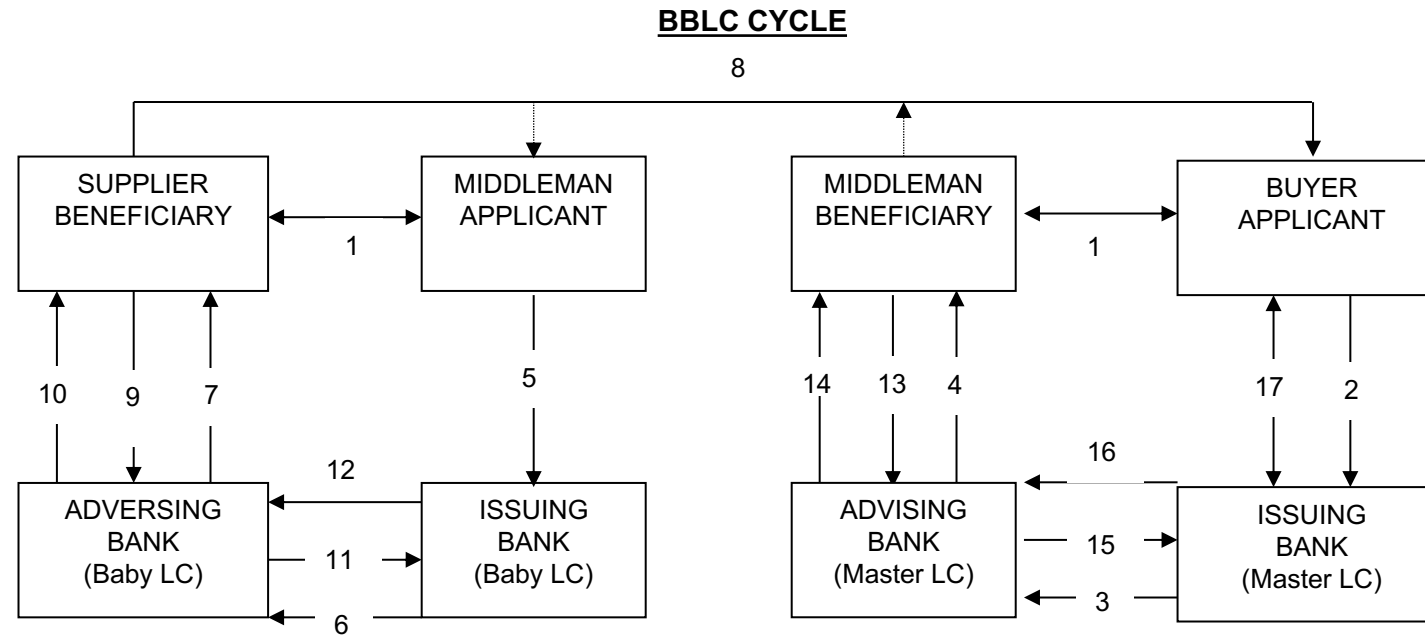
1. Commercial Contracts
2. TFLC application say USD 100,000
3. TFLC issued (USD 100,000)
4. TFLC advised
5. Transfer request
6. TFLC for (say) USD 75,000
7. TFLC advised
8. Goods shipped
9. Documents submitted
10. Documents sent to transferring bank
11. Substitution of documents by middleman (invoice/draft)
12. Documents sent to issuing bank
13. Reimbursement against compliant documents
14. Documents released to applicant against payment
15. USD 25,000 paid to 1st Beneficiary. USD 75,000 paid to 2nd Advising Bank.
16. USD 75,000 paid to 2nd Beneficiary

- A Back-to-Back LC (BBLC) is one which is issued in favour of the supplier at the request of the middleman against the security of “Master” LC.
- The terms and conditions of a BBLC (also known as a “Baby” LC) should mirror the terms and conditions of the master LCs as far as possible (Mirror). Nevertheless, there is a greater degree of flexibility with BBLCs and variations in the terms and conditions can occur (In Support). The riskiest type of BBLC is a front to back when the Baby LC is issued before the Master LC is received (To Arrive).
- The bank issuing the baby LC must take care to keep the variations to a minimum as the more variations the greater the chance of the documents not complying with the terms and conditions of the Master LC. The bank may then be left in the position where they have to make payment under the Baby LC but cannot be reimbursed under the Master LC.

Back-to-Back LCs - Considerations

- A BBLC is a separate LC and the **middleman will require a facility** to establish such LCs. The master LC is held by the Bank as security.
- Banks have the following considerations before issuing BBLCs:
 - The financial standing and integrity of the applicant (the middleman).
 - The standing of the master LC Issuing Bank.
 - Careful examination of the terms and conditions of the master LC (workability).
 - A status report should be obtained on the beneficiary of BBLC.
 - The commercial transaction must make sense (i.e., goods involved should be the same under both LCs)
 - The Bank should have control over the goods (Both LCs call for 3/3 BL).
 - **The Bank issuing a Baby LC has independent/sole obligation to pay** if beneficiary submits compliant documents. If the middleman fails to produce the required documents for substitution, then payment under Master LC may be refused. To mitigate this a **Power of Attorney is taken from the customer** enabling preparation of required documents by the Bank.

Back-to-Back LC Cycle



1. Commercial Contracts
2. LC application ("master")
3. LC issued ("master")
4. LC advised ("master")
5. LC application ("baby")
6. LC issued ("baby")
7. LC advised ("baby")
8. Goods shipped (could be via middleman)
9. Documents submitted
10. Documents checked/negotiation of documents (optional)

11. Documents dispatched to baby LC Issuing Bank
12. Documents checked and reimbursement made if compliant
13. Substitution of documents by middleman
14. Documents checked/negotiation of documents (optional)
15. Documents dispatched to master LC Issuing Bank
16. Documents checked and reimbursement made if compliant
17. Documents presented to applicant/applicant pays Issuing Bank

Case Study: LC Payment Structures

Basic Commodities Ltd (BCL)

Case Study Background Information

- Small locally based Trading Company. Trading on worldwide basis. T/O USD10m
- Customer of YOUR Bank for 5 years with USD1m Trade Facility plus small OD.
- Occasional cashflow difficulties.
- Negotiating a contract to supply 5,000mt Tallow to Vietnam at USD450pmt CIF.
- YOUR Bank not prepared to increase exposure. Deal needs to be self financing.
- **Latest Development.**
 - BCL has now located a source of supply in northern France. Price EUR360 FOB
 - Supplier requires an LC. Today's Exchange rate is EUR1.00 equals USD1.15.
 - Good chance of repeat business. Although at this stage should be treated as one off.
 - BCL has asked if YOUR Bank will be willing to issue an LC to supplier
 - Vietnamese buyer is willing to issue an LC in favor of BCL.
- **What would be your response?**

Back to Back LCs.

- YOUR Bank would need to issue a “Baby” LC against “Master” LC.
- Back to Back Credit Facility of EUR1.8m required, plus VN bank & country limit.
- Back to Back offers maximum flexibility in changing LC terms and conditions.
- Easier to conceal identity of supplier from buyer. Middleman could take possession of goods.
- Hard to justify set up of Back to Back facility for one off transaction.

Transferable LC

- No credit facility required for Transferable LCs. Risk mainly operational.
- LC Transferred without responsibility or engagement by YOUR Bank.
- Issuing Bank & Country risk exposure taken by French Supplier.
- Repeat Business would not be essential.
- Internationally recognised payment solution supported by ICC UCP 600 Article 38

NEXT STEPS? Will French Supplier accept a Transferred LC?

Case Study - Basic Commodities Ltd Part II

- Having followed your expert advice BCL were able to structure the deal using a Transferable LC. BCL has now received the LC in their favor, and have requested a meeting at which they wish to go through the mechanics of the transaction and execute the transfer request.
- BCL has sent a copy of both the LC and Transfer request to you by fax to enable you to prepare for the meeting today. BCL have requested that the ultimate buyer and supplier be kept at arm's length to protect future business opportunities.

REQUIRED

- Review the LC and the Transfer Request and highlight any amendments and/or advice that you would give BCL before authorising the transfer.
- Are there any other matters that you would want to finalise?

Incoming LC Text

FROM: EXIM BANK
HO CHI MINH CITY, VIETNAM

TO: YOUR BANK

MT700 ISSUE OF DOCUMENTARY

CREDIT SEQUENCE OF TOTAL : 1/1

FORM OF DOCUMENTARY CREDIT : IRREVOCABLE

DOCUMENTARY CREDIT NUMBER : 19LC892389

DATE OF ISSUE : 27MAYXX

DATE AND PLACE OF EXPIRY : 17JUNXX, YOUR COUNTRY

APPLICANT : VIETNAM TRADING COMPANY PO BOX 4B1, HANOI, VIETNAM

BENEFICIARY : BASIC COMMODITIES LIMITED LOCAL OFFICE ADDRESS, YOUR COUNTRY

CREDIT AMOUNT : USD 2,250,000.00

AVAILABLE WITH..BY.. : ANY BANK BY NEGOTIATION

DRAFTS AT...DRAWN ON : SIGHT FOR FULL INVOICE VALUE OF GOODS DRAWN ON ISSUING BANK.

PARTIAL SHIPMENTS : NOT ALLOWED

TRANSHIPMENT : NOT ALLOWED

SHIPMENT FROM : ANY EUROPEAN PORT

SHIPMENT TO : HAIPHONG, VIETNAM

LATEST SHIPMENT : 10JUNXX

GOODS : 5,000 MT INEDIBLE TALLOW @ USD450 PMT CIF HAIPHONG

DOCUMENTS REQUIRED:

COMMERCIAL DOCUMENTS:

- + SIGNED COMMERCIAL INVOICES IN SIX COPIES
- + PACKING LIST REQUIRED IN SIX COPIES CERTIFYING THAT THE GOODS ARE PACKED IN NEW OIL DRUMS EACH OF 50 KGS GROSS

TRANSPORT DOCUMENTS

- + FULL SET CLEAN ON BOARD ORIGINAL OCEAN BILLS OF LADING MADE OUT TO ORDER OF SHIPPER ENDORSED IN BLANK MARKED FREIGHT PREPAID AND NOTIFY VIETNAM TRADING COMPANY, POST BOX 481, HANOI AND THE ISSUING BANK

OTHER DOCUMENTS

- + PHYTOSANITARY CERTIFICATE ISSUED BY GOVERNMENT DEPARTMENT IN EXPORTING COUNTRY
- + INSPECTION CERTIFICATE ISSUED BY S.G.S. FRANCE (INDEPENDENT SUPERINTENDING CO), CERTIFYING WEIGHT, QUALITY, PACKING AND MARKS
- + BENEFICIARY'S CERTIFICATE CERTIFYING THAT FULL SET OF COPY DOCUMENTS, ALONG WITH SHIPMENT SAMPLE HAVE BEEN SENT BY REGISTERED AIRMAIL TO THE APPLICANT, PO BOX 481, HANOI. RELATIVE POSTAL REGISTRATION RECEIPT MUST BE SUBMITTED WITH THE DOCUMENTS
- + CERTIFICATE OF ORIGIN REQUIRED, SIGNED BY A FRENCH CHAMBER OF COMMERCE
- + MARINE INSURANCE CERTIFICATE FOR 110% OF CIF INVOICE VALUE COVERING INSTITUTE CARGO CLAUSES (A) INSTITUTE STRIKE CLAUSES (CARGO) AND INSTITUTE WAR CLAUSES (CARGO)

ADDITIONAL CONDITIONS

DETAILS OF CHARGES : ALL BANKING CHARGES OUTSIDE THE COUNTRY OF ISSUANCE OF THE CREDIT ARE FOR ACCOUNT OF THE BENEFICIARY

PERIOD FOR PRESENTATION : DOCUMENTS MUST BE PRESENTED WITHIN SEVEN DAYS AFTER THE ISSUANCE OF THE SHIPPING DOCUMENTS, BUT WITHIN THE VALIDITY OF THE CREDIT

CONFIRMATION INSTRUCTIONS : ADVISING BANK IS REQUESTED TO ADVISE THIS CREDIT TO THE BENEFICIARY TO WITHOUT ADDING THEIR CONFIRMATION

INSTRUCTION TO NEGOTIATING BANK

REIMBURSING BANK : JP MORGAN CHASE BANK REIMBURSEMENT WORKSTATION 7TH
FLOOR, 140 BROADWAY NEW YORK, NY 10015, USA.

PLEASE CLAIM REIMBURSEMENT FROM THE ABOVE BANK.

+ NEGOTIATING BANK MUST TELEX ADVISE ISSUING BANK THREE INTERNATIONAL WORKING DAYS PRIOR TO CLAIMING REIMBURSEMENT, STATING APPLICANT, LC NUMBER, AMOUNT AND VALUE DATE OF CLAIM AND CERTIFYING THAT ALL TERMS AND CONDITIONS HAVE BEEN COMPLIED WITH.

DOCUMENTS MUST BE DESPATCHED IN ONE LOT BY COURIER TO THE EXIM BANK, HO CHI MINH OFFICE, PO BOX 66, HO CHI MINH CITY, VIETNAM.

COL: USD 2,250,000.00

END

NNNN

Transfer Request

To: The Manager YOUR BANK

Branch _____

Date _____

INSTRUCTION FOR PARTIAL TRANSFER OF CREDIT (With Substitution of Invoices)

NOTE: Please tick (☒) where applicable.

Original Documentary Credit Information

Original DC Number 19LC892389	Issued by Bank Name : VIETNAM EXPORT IMPORT BANK City : HO CHI MINH, VIETNAM	
Amount USD 2,250,000.00	Latest Shipment Date 10 June 20xx	Expiry Date 17 June 20xx
First Beneficiary /Transferor Name BASIC COMMIDITIES LIMITED		IMP/EXP Account No.
Contact Person Name : COLIN FERRETT Telephone : 071 323 4480		

Transfer Documentary Credit Details

Second Beneficiary /Transferee Name and Address FRENCH SUPPLY CO. S.A 19 RUE DE LAFAYETTE, PARIS		
Contact Person Name : MONSIEUR WOMBAT Telephone : 33 2 36 219987		
Advise Transferee by <input checked="" type="checkbox"/> Full Telettransmission <input type="checkbox"/> Courier <input type="checkbox"/> Mail <input type="checkbox"/> Airmail (<input type="checkbox"/> With <input type="checkbox"/> Without Brief Telettransmission)		
Amount in Words EUR ONE MILLION EIGHT HUNDRED THOUSAND		Amount in Figures EUR 1,800,000
Latest Shipment Date 30 June 20xx	Expiry Date 30 July 20xx	Quantity and Unit Price of Goods (if any) 5.000 M/T TALLOW AT EUR360 PER M/T FOB DIEPPE
Special Instructions (if any) PLEASE DELETE PACKING LIST AS WE WISH TO SUBTITUTE TOGETHER WITH INVOICES AND DRAFTS.		

Charges

	Transferee	Transferor	Please debit DC Transfer Commission and Advising Expenses to our Account Number
DC Transfer Commission for	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
Your Other Charges for Account of	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
Other Bank's Charges for Account of	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Transit Interest Charges (if any) Paid by	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

We request you to effect a partial transfer of the above documentary credit with substitution of invoices for our account in accordance with the above instructions and subject to the conditions mentioned overleaf. We irrevocably retain the right to refuse to allow you to advise amendment to the transferee.

Authorised Signature(s)



S.V


Any transfer would have to be strictly in accordance with UCP600 Article 38

- LC is not designated Transferable
- The currencies don't match
- Incoterms don't match
- It will be difficult to hide suppliers & buyers identities
- Bill of Lading would need to be endorsed by French Supplier
- Other Documents would need to be provided by 2nd beneficiary (French Supplier)
- Only invoices & drafts may be substituted by 1st beneficiary
- Beneficiary Certificate requires 2nd beneficiary to submit duplicate documents to Vietnamese buyer
- Expiry Dates & Latest Shipment dates in original LC need to be amended

Finally, Other Considerations

Pricing

- Standard Pricing not appropriate.
- BCL expect to make USD180k less freight costs.
- All in fee of .5% (USD11,250) would see reasonable. 50% upfront.
- Subsequent transactions fees reduced.

Reimbursement/Payment

- Always prudent to only pay once you get paid.
- TT reimbursement is in BCLs favor and will reduce transit interest.
- If LC required confirmation, it would be possible to consider ADB TFP.

Non-Customer and/or One-Off transactions

- Only undertake Transferable LCs for established Customers on whom you have full KYC.
- LC to be advised through YOUR Bank.
- Full transactional AML/CFT would be required.
- One off Transactions acceptable & preferable to Back-to-Back LCs

Summary- Differences between BBLCs & TFLCs

BBLCs	TFLCs
Involve two LCs	One LC
LCs not designated “master” or “baby”	Must be designated “transferable”
Issuing Bank of baby is obligated to pay against compliant documents	Transferred without obligation by Transferring Bank
Subject to UCP 600	Subject to UCP 600 and specifically to Art 38
Flexible where alteration of terms/conditions are concerned eg: goods may be shipped to middleman	Only alterations described by Art 38 permitted. Goods must be shipped from 2 nd beneficiary to TFLC applicant
Facility required by middleman	No facility needed

SIX “S” = Low Risk

- Security
- Short Term
- Self Liquidating
- Selective
- Size/Spread
- Specific

Use Them - Take full advantage of them

Thank you.